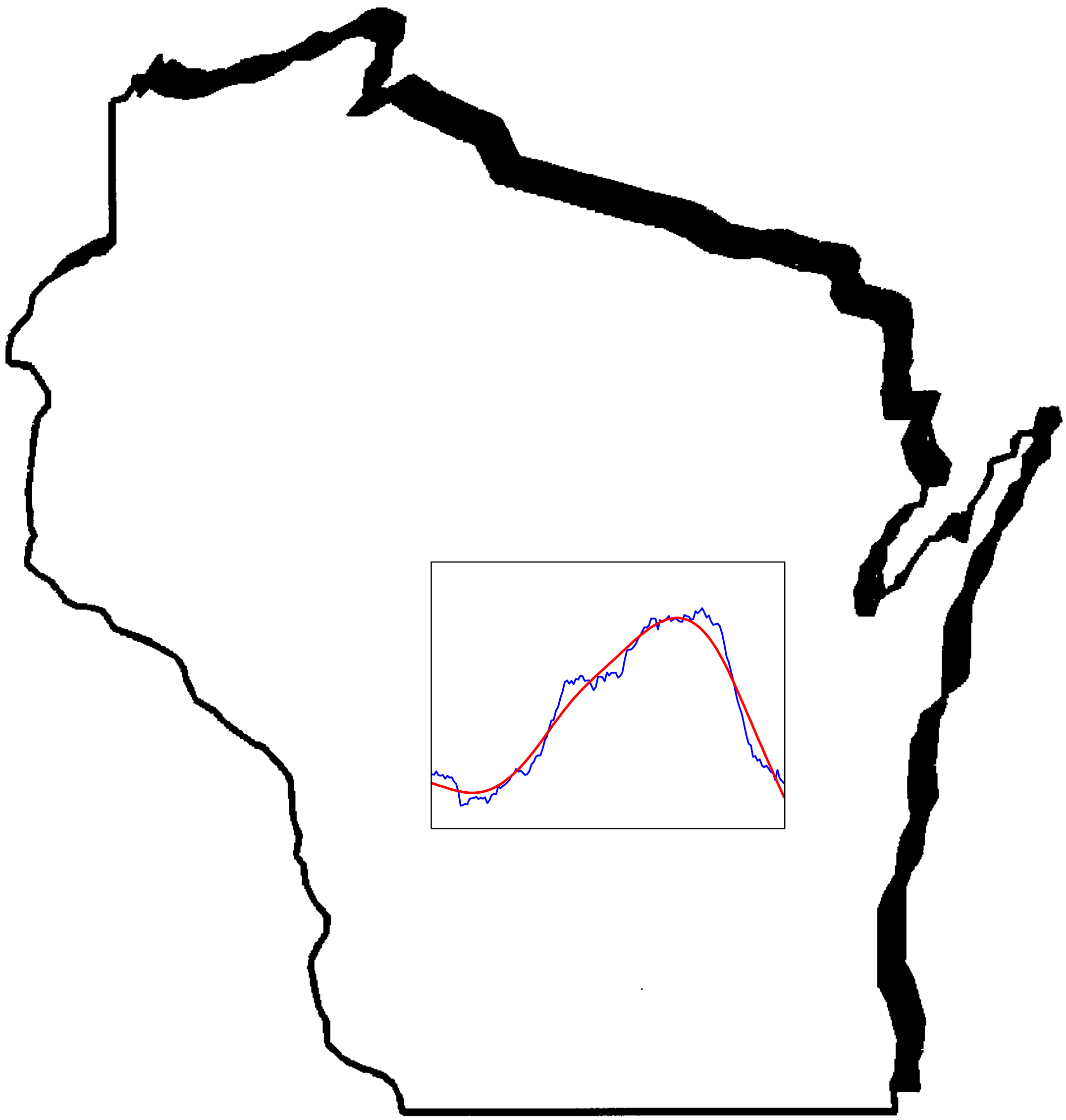
WISCONSIN ECONOMIC OUTLOOK



Wisconsin Department of Revenue
Division of Research and Policy

September 6, 2006

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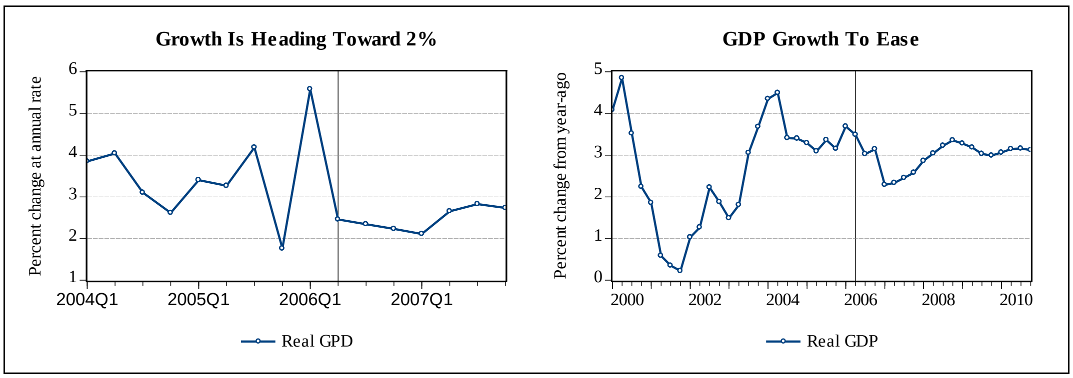
This is a regularly scheduled quarterly economic outlook released by the Wisconsin Department of Revenue. The Division of Research and Policy, Wisconsin Department of Revenue prepared the Wisconsin forecast. Global Insight, Inc. prepared the national forecast on August 8, 2006. The forecast does not incorporate data released subsequent to that date.

I. ECONOMIC OUTLOOK
U. S. OUTLOOK

The U.S. economy has slowed. GDP growth cooled to 2.5% in the second quarter, and Global Insight only sees growth of just above 2% for the next three quarters. On an annual basis, growth averages 3.3% this year, but only 2.4% in 2007. The key to the slowdown is a downturn in the housing market and a more cautious consumer. Rising gasoline prices are adding to the burdens on stretched consumers, especially at the lower end of the income scale. Oil prices in the high $70s/barrel are complicating the outlook by threatening to fan inflation and undermine economic growth at the same time. Surprisingly, business equipment spending dipped in the second quarter; a rebound is important if a deeper slowdown in overall growth is to be avoided. The Federal Reserve paused in August, but inflation risks suggest that it has not finished raising interest rates. The August forecast assumes one more hike in the federal funds rate, to 5.50% in September.

Chart I.1



The Forecast in Brief

The U.S. economy slowed in the second quarter, and Global Insight believes that it is now heading for an extended period of below-trend growth (i.e., below 3%). Four successive monthly payroll employment increases in the 100,000-125,000 range have underscored the slowdown. The housing market is cooling, and already-stretched consumers are facing rising gasoline bills. At the same time, though, inflation is still moving higher as oil and other materials costs have risen and are passing through to the prices of other goods and services. While the Federal Reserve has paused this month (after 17 consecutive quarter-point rate hikes), with core inflation edging higher, Global Insight believes that it will have to push interest rates a bit higher still.

Second-quarter GDP growth came in at 2.5%, well below the 5.6% rate in the first quarter. Consumer spending growth slowed, as expected, with the increased cost of filling gasoline tanks squeezing spending in other areas, particularly for lower-income consumers who have less room to maneuver. Residential construction fell around 6% in the quarter, foreshadowing steeper declines in the second half of the year. The big disappointment was business capital equipment spending, which showed its first decline in 13 quarters, concentrated in high-tech equipment. Economic growth relied more heavily on bigger inventory accumulation than anticipated, which is not good news for future output growth. On the plus side, business spending on nonresidential construction had its second successive strong increase.

Even though U.S. growth has slowed, world oil markets have become tighter still. The hostilities in the Middle East have raised the risks of a major supply interruption, while the closure of a key Alaskan field for pipeline maintenance has underscored the lack of flexibility in the system. The assumption for the average oil price (West Texas Intermediate) during the second half of 2006 rose to $76.50 per barrel, up from $69.00 and the average price for 2007 to $76.25, from $65.50, $73.38 in 2008, and $68.75 in 2009. Demand growth remains strong, reflecting faster growth in China's economy and robust transportation fuel demand in OECD countries. Non-OPEC oil production should rise significantly through 2007, as new projects start or accelerate. However, project timetables continue to slip, and decline rates for existing fields are increasing relative to historical rates. At the same time, OPEC's price target is probably no lower than $60/barrel, now that the world economy has shown a tolerance for higher prices.

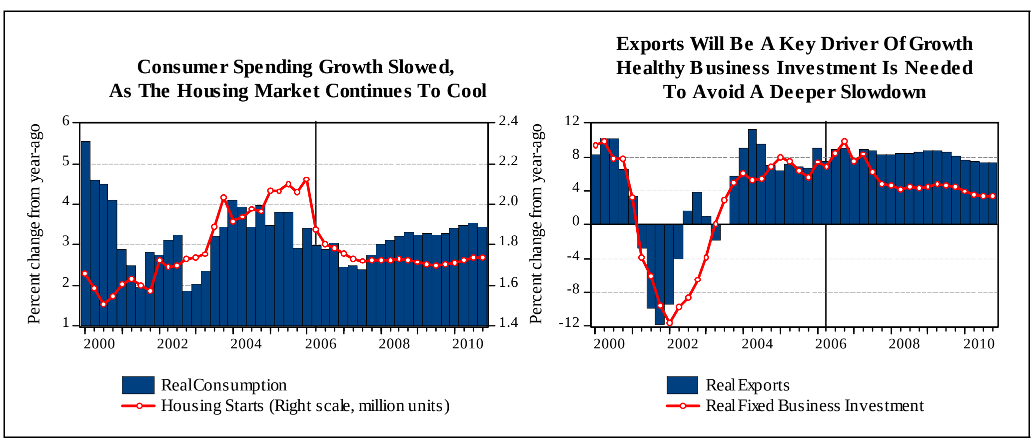
In part due to the higher oil prices, the expectations for second-half GDP growth were lowered to the low 2% region, from the high-2% region. Housing activity will continue to decline, chopping about 0.9 percentage point off growth in the second half of the year through its direct GDP contribution alone.

House prices have risen so much that they have made mortgage payments unaffordable for those on average incomes in many major markets (especially in the West). Rising interest rates have compounded the affordability problem this year. The broad trends in sales, permits, and starts remain clearly downwards. Rising unsold inventories of new homes will demand a prudent response from builders, whose confidence has dropped to its lowest level in almost 15 years, and housing starts will slide over the rest of the year.

The housing slowdown is bringing with it a much slower rate of home price appreciation, which will remove some of the fuel that has allowed consumer spending growth to out-pace real income gains in recent years, producing a positive savings rate that has been negative for more than a year. And lower levels of home sales will mean that spending on items like carpets and furnishings will diminish.

Consumer spending growth should improve in the third quarter (vehicle sales responded to incentives in July), but Global Insight expects a payback later in the year. For good reason, consumers feel stressed. Pay gains as measured by the employment cost index (which excludes items like stock options benefiting higher-income earners), although edging higher, have fallen short of accelerating energy-driven consumer price inflation. Even if energy prices level off, and pay gains again outstrip inflation, some readjustment of spending relative to income will still be required. Global Insight is not forecasting any dramatic retrenchment by consumers, only spending gains that slow to less than the growth rate of disposable income. In real terms, they expect consumer spending growth to downshift from 3.5% in 2005 to 3.1% in 2006 and 2.5% in 2007.

Chart I.2



Higher utilization rates and the need to remain competitive are spurring business fixed investment, but the picture here has suddenly become murkier. The shortfall in business equipment spending during the second quarter poses an important risk for growth in the second half of the year. Was it just a payback for a very strong first quarter? If businesses are beginning to pull back, the outlook will get much darker, but evidence such as the ISM manufacturing survey does not yet point to a major deterioration in business sentiment. Equipment spending will need to be watched carefully: corporations may be awash in cash, but that does not mean they have to spend it. The biggest positive difference this year for investment will be that nonresidential construction is finally joining the expansion, helped by post-hurricane rebuilding, rising utilization rates, and falling office vacancy rates.

Strong growth in the economy is having a very beneficial impact on the federal budget deficit. Despite hurricane-related spending, and the launch of the unfunded Medicare prescription drug program, revenues are improving so sharply that the federal budget deficit is narrowing this year. Global Insight now expects the fiscal 2006 deficit to come in at $267 billion, well below the $319 billion deficit in fiscal 2005. This does not change their view that higher taxes will be needed eventually to keep the deficit under control, but it does make the issue less immediate.

Improving economic growth around the world, plus a declining dollar, mean that exports will be an important source of strength going forward. Export growth did slow, to 3.3%, in the second quarter, as Global Insight had anticipated. But this should prove a temporary setback, given the favorable fundamentals. Export gains should average in the high single-digits for both 2006 and 2007, and will be a key driver of growth.

The dollar is sliding again, now that the financial markets perceive that U.S. interest rates do not have much further to rise. The greenback is struggling against a headwind from the rising current-account deficit, and without the expectation of further increases in the interest-rate differential in favor of U.S. assets, its prospects are gloomy. The forecast retains the long-held view that the dollar will fall further. The current-account deficit is likely to reach $877 billion (6.6% of GDP) this year, and breach $900 billion in 2007. Thereafter, Global insight anticipates that it will first stabilize and then improve gradually, as exports gain on imports in both real and nominal terms.

Although growth has slowed, there are still some inflation risks. Four successive monthly core CPI figures at 0.3% have taken inflation well outside the Federal Reserve’s supposed 1-2% tolerance band (the core PCE price index is now running at 2.4% year-over-year). And labor cost indicators are beginning to flash warning signs, the key question being whether these will be absorbed in profit margins or passed on into prices, potentially feeding a wage-price spiral. The Fed's tolerance band is not a "hard" target zone; it is clearly worried about the risk of over-tightening and thus sending the housing market into a tailspin. It held interest rates steady on August 8, giving priority for now to the risk of over-tightening. But the forecast assumes that inflation risks will lead the Fed to hike one more time, on September 20, taking the federal funds rate to a peak of 5.50%. In 2007, with GDP growth running below trend and inflation edging lower, some modest rate reductions are expected beginning in the second quarter, taking the federal funds rate down to 4.75% by year-end.

Financial markets have priced in a pause by the Federal Reserve. The consensus view assigns a higher risk to weakening growth than to rising inflation. Alternatively, many investors seem willing to tolerate rising inflation in the near term, believing that below-trend growth will, eventually, bring inflation down. Inflation expectations remain at around 2.5%.

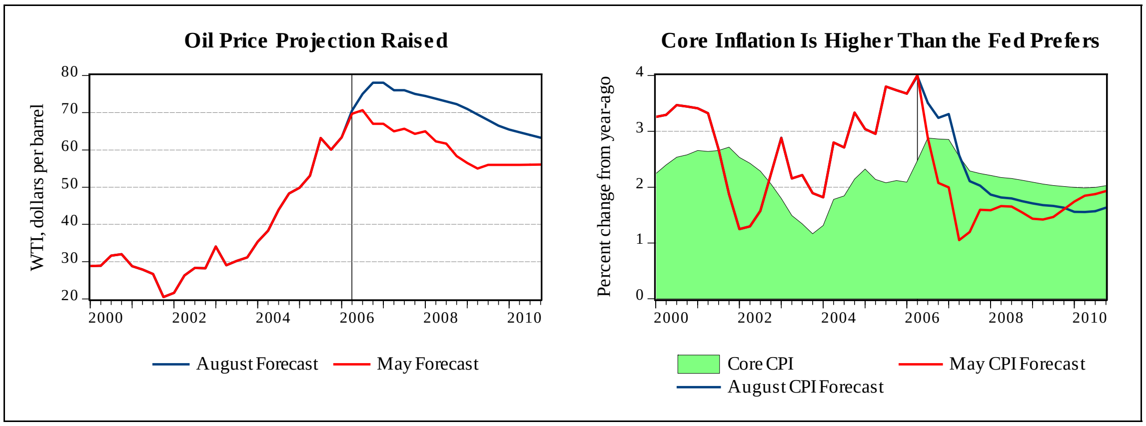
Global Insight believes that the mild deceleration projected by the Fed (roughly three quarters of below-trend growth) may not be enough to reverse rising inflationary trends. Specifically, the forecast predicts that the economy will experience below-trend growth for a total of seven quarters. Moreover, Global Insight believes that, over the next 12 months, inflationary risks are predominantly on the upside. If this more-pessimistic assessment of inflation turns out to be true, it will upset financial markets and complicate the Fed's job.

The single-biggest external threat to inflation remains the inexorable upward climb in oil prices. Global Insight’s oil price forecast for the remainder of the decade has been raised substantially in light of recent geopolitical and oil market developments. The West Texas Intermediate crude oil price is now projected to reach $80/barrel this winter and then gradually decline, but not fall below $70 until 2009. As such, we are unlikely to see any relief on headline inflation. In the meantime, wage inflation has picked up steam. The revised data on labor compensation now show an acceleration to 6.2% in the first quarter of 2006 (year-over-year basis), compared with 5.6% in the first quarter of 2005. Before the recent NIPA revisions, the data had shown a deceleration in wage inflation from last year to this year. If sustained, such increases in labor costs are inconsistent with the Fed's goal of keeping inflation in the 1-2% region. Finally, recent business surveys suggest that companies are having more success in passing costs on to their customers. All of this suggests that core inflation may continue to edge up for the next couple of quarters and will then come down very gradually in response to slack in the economy. Global Insight projects that in the second half of this year, core CPI inflation will average 2.9% and that core PCE inflation will average 2.4%. They do not expect either measure to show core inflation reaching 2%, on a sustained basis, until 2009.

KEY FORECAST ASSUMPTIONS

Oil Prices Projection Raised Again. Global Insight has raised its assumption for the average oil price (West Texas Intermediate) during the second half of 2006 to $76.50 per barrel, up from $69.00 and the average price for 2007 to $76.25, from $65.50. They expect gasoline prices will remain above $3/gallon through this summer, but then ease back to around $2.80 by year-end.

Chart I.3



Natural Gas Prices Positioned for a Major Change. The unseasonably warm winter drove natural gas prices down, with prices dipping below $6 per million Btu at the beginning of July. But market volatility resurfaced, as prices spiked briefly above $9 at the end of July, when a heat wave led to a surge in utility demand for electricity generation. As we move towards winter, Global Insight believes that weak production and rising seasonal demand will tighten the market and push the Henry Hub price for natural gas above $10 per million Btu by the first quarter of 2007.

One More Fed Rate Hike. The forecast assumes that the Fed will react to still-climbing core consumer price inflation by raising the federal funds target another notch, to 5.50%, on September 20. The next move, in the spring of 2007, will be a rate cut to counter the slowdown in real growth and the stabilization of inflation.

Dollar Decline to Continue. The drag on the dollar from the current-account deficit is reasserting itself this year, pulling the currency down. The forecast assumes that the dollar will decline about 8% against major currencies during 2006 (fourth quarter-to-fourth quarter basis), reaching rates of $1 .35/euro, 107 yen/dollar, and C$ 1.11/dollar at year-end. Furthermore, it is anticipated a further 5% decline against major currencies during 2007. China began the process of renminbi revaluation with a small 2.1% move in July 2005; the currency has moved up another 1.7% since then. Global Insight expects future moves to remain gradual, with the renminbi appreciating another 5.0% against the dollar over the next 12 months.

Foreign GDP Growth Improves. The forecast assumes growth in major-currency trading partners to accelerate to 2.8% in 2006, from 2.4% in 2005. Real goods exports are projected to see double-digit gains for 2006.

Tax Burden to Rise. Global Insight does not believe that budget-deficit reduction will be achieved by spending restraint alone. The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire as scheduled (the rate cuts for capital gains and dividends have already been extended to 2010, matching the expiration date of the earlier, broader cuts). But they expect some increase in the income-tax burden, whether through the impact of the alternative minimum tax or some kind of tax reform that raises a similar amount of revenues.

DETAILS OF THE U.S. OUTLOOK

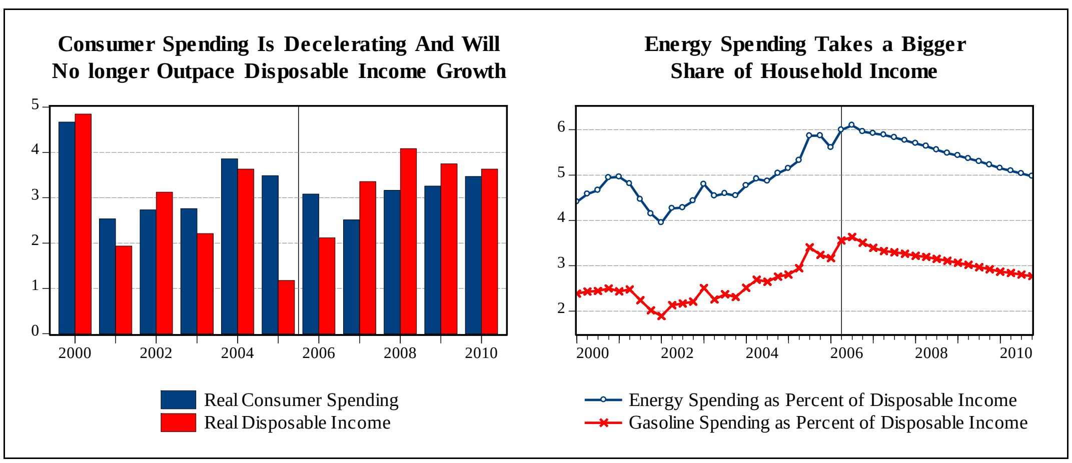
Consumption

The July surge in retail sales was a temporary revival, stoked by auto incentives and summer heat. High energy prices and a housing market downturn will lead to sluggish consumption growth in the year ahead. The 2005-07 slowdown in real consumer spending will be concentrated in vehicles, home furnishings, apparel, and food.

Revisions to the GDP accounts in late July brought few changes in the overall pattern of consumer spending since early 2003. In the current expansion, real consumption growth peaked at 3.9% in 2004 and tapered off to 3.5% in 2005. By the first quarter of 2006, real consumption was just 0.2% below its previous path, while nominal spending was unchanged. Notable downward revisions to real spending on medical care, energy, food, and transportation services were largely offset by upward revisions to housing services, motor vehicles, home furnishings, recreation, and other services. Disposable income was revised upward slightly, but the personal savings rate remained negative from the spring of 2005 through the second quarter of 2006, when it reached -1.5%.

Retail sales surged 1.4% in July, led by strong gains at automotive, gasoline, electronics and appliances, building materials, and Internet channels. June sales, however, were revised downward, declining 0.4%, rather than the 0.1% drop first reported. Sales at general merchandise stores remained sluggish, with department store sales falling in both June and July.

Chart I.4



The July rebound in retail sales is consistent with the August forecast that real consumer spending growth will pick up from a 2.5% annual rate in the second quarter to 3.5% in the summer quarter, before fading to 1.5% in the final quarter of 2006. Spending is expected to remain fairly subdued in 2007, with real growth of 2.5%. And although gasoline prices are probably near their peak, a sharp rise in natural gas prices this fall and winter is forecasted. Light-vehicle sales should decline in 2007. The downtrend in single-family home sales, construction, and remodeling will curb spending for appliances and other home furnishings. Rising interest rates and flat home prices are closing the window on home equity withdrawals, a popular source of funding for home improvements.

With mortgage debt burdens rising, the household financial obligations ratio climbed to a record high of 18.70% of disposable income in the first quarter of 2006. Global insight expects that this ratio will climb to a peak of 20.3% in 2008, before improving. This measure includes debt service on mortgages and consumer loans, rent on primary residences, auto lease payments, property taxes, and homeowners' insurance.

Housing

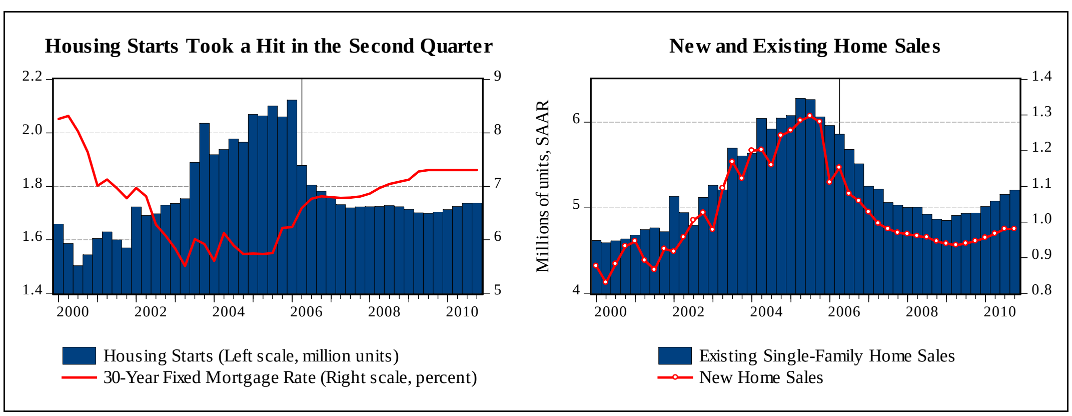
The housing downturn is about a year old, and both starts and home sales are down around 10%. House prices are holding up, but inventories are building. Condos/co-ops and second homes are taking the bigger hits. As long as the economy keeps on track, and as long as interest rates do not shoot up too much, the housing slowdown will not be too turbulent.

All major indicators were down in the most recent month. New home sales fell 3.0% in June and data revisions eroded almost all of May's gains and part of April's. Existing home sales fell 1.3% in June, while housing starts dropped 5.3%, the fourth significant drop in five months. Applications to purchase mortgages fell 2.1% in July. Finally, the NAHB/Wells Fargo Housing Market Index (HMI) fell to 39 in July, its lowest reading since December 1991.

Inventories of new and existing homes continue to rise and will play a key role in how events in the housing market unfold. Real price declines in many housing markets are likely, and housing starts will take a hit. Inventories will also add uncertainty to the forecast, since it is hard to predict how strongly builders, sellers, and buyers will respond to the inventory buildup. One auspicious development has been a recent drop in long-term mortgage rates, to 6.63% in mid-August. Our view is that this drop is temporary and that rates will climb back to about 6.8% by the fourth quarter.

The housing sector will be a significant drag on GDP growth for the rest of this year, despite evidence that housing demand is softening at a slower rate than earlier this year. The growing number of homes on the market, which stand at a record high, will cause a further retreat in housing starts over the course of 2006. In the forecast, housing starts, which dropped 11.5% in the second quarter, will drop another 3.9% and 1.3% in the third and fourth quarters, respectively. The slowdown then moderates, although starts still fall through the third quarter of 2007. This slowdown is behind the weaker spending on residential construction, which drops at double-digit rates in the second half of 2006, chopping 1.0 percentage point and 0.8 percentage point, respectively, off GDP growth in the third and fourth quarters of this year, and then 0.5 percentage point off in 2007.

Chart I.5



Given the steady rise in interest rates, further increases in home prices, and the slowdown in the economy, a further weakening in housing demand is in the cards. New home sales, which rebounded in the second quarter, resume their slide in the third quarter. The largest percentage decline takes place in 2006, and the downturn extends through 2008. The downturn in existing home sales will be milder than that for new homes; this downturn also extends through 2008.

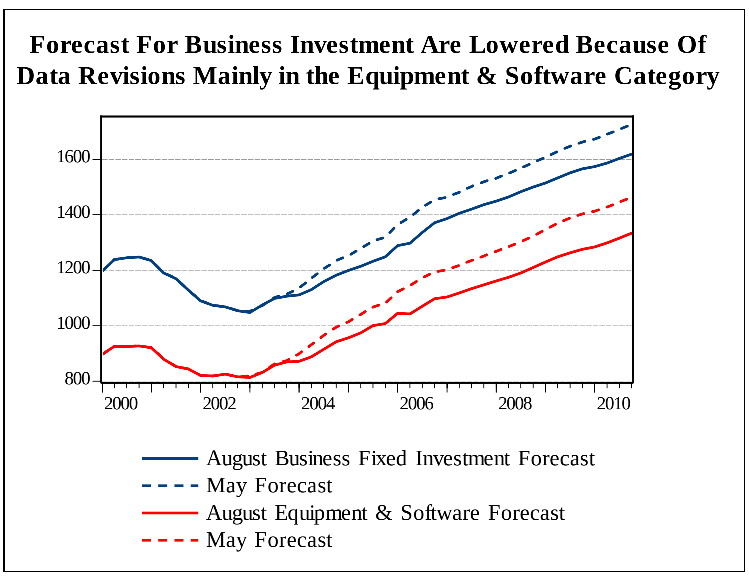
The cooling in the housing market has so far been an orderly one. So long as the economy keeps on track and interest rates do not shoot up too much, the housing slowdown, which is more of a transition from a market powered by low interest rates to one driven by demographics, should remain smooth.

Business Investment

Revised data show that nominal spending on equipment and software at the end of 2005 was $73 billion lower than the earlier estimate. By comparison, GDP was $35 billion lower. As a result, the forecast shows major downward revisions for spending on computers. Spending on heavy-duty trucks will surge this year because of EPA regulations that take effect next year. Spending plummets in the first quarter of 2007, though. Nonresidential construction is rebounding smartly and will take some of the sting out of the housing slowdown.

On the surface, the second quarter was not a good one for business fixed investment, which increased only 2.7% (worst since first-quarter 2004), after soaring 13.7% the previous quarter. Spending on equipment and software (E&S) had a terrible quarter, dropping 1.0% (worst since first-quarter 2003). But if one looks at the details, things were not so bad. Industrial and "other" equipment investment both had solid quarters, and there are enough unfilled orders in the pipeline to support solid third- and fourth-quarter numbers. The drop in spending on computers and software was partly a result of delays in Intel releasing its latest processor and the expected November release of Windows Vista for business. Global Insight expects spending on high-tech E&S to bounce back in the third quarter and post a solid fourth quarter. Transportation equipment investment also had a sub-par second quarter, but there are good reasons to expect a solid third-quarter rebound. Spending on aircraft and light vehicles both plummeted. These two categories are volatile, though, and dismal quarters are frequently followed by stellar ones. The second quarter was also a solid one for nonresidential construction, which is rebounding smartly after languishing the past four years.

Chart I.6



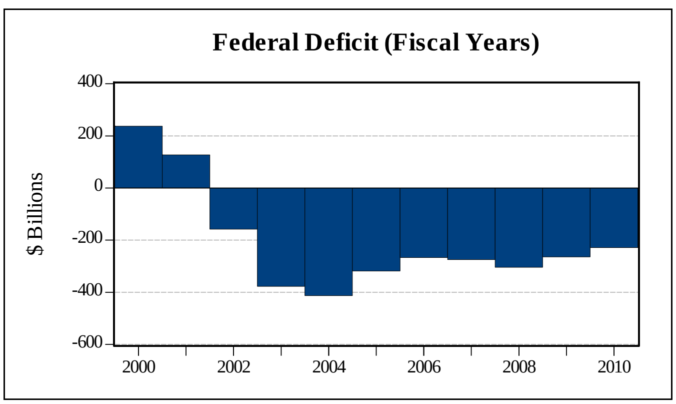
All four major E&S categories were revised down, but information equipment, particularly computers, took the biggest hit. The downward revision to computers was mainly a result of a change in methodology. The BEA also upwardly revised nonresidential construction, raising nominal spending in 2005 by $3.5 billion. The equipment and software investment forecast is much weaker than the forecast in the last May Outlook. The BEA data revisions account for most of the downgrade. In addition, the revisions also lowered potential GDP. This lowered E&S investment further, because potential GDP is a key driver in many E&S equations.

The outlook for nonresidential construction remains good through mid-2007, even if the economy weakens more than we expect. This is because construction projects are long-term ones, and spending levels today are based on decisions made several quarters, or even years, ago. In the forecast, nonresidential construction investment continues through the end of 2007, due to a sustained and broad-based rebound in nonfarm buildings, as well as further growth in mining and petroleum structures, followed by an extended decline.

Government

There continues to be positive news on the federal budget. With nominal GDP growing at very strong rates in the first half of 2006, annual growth accelerated to 6.9% in this period, its strongest pace since the first half of 2004, tax revenues continue to roll into U.S. Treasury's coffers at a surprisingly strong rate. Federal personal tax revenues rose by a strong 14.5% through July. Federal corporate tax revenues rose a robust 27.1% through July. Expenditures, adjusted for timing differences, were up 8.4% through July. The fiscal 2006 deficit projection was reduced to $266.6 billion, down from $309 billion in May.

Chart I.7



With respect to the long-term projections, upward revisions to historical social insurance tax receipts through the second quarter of 2006 and downward revisions to federal transfers to persons have induced an increase to the profile for revenues slightly, and similarly lowered the profile for expenditures. As a result, the long-term projection for the deficit has been reduced. However, the August forecast does not include long-term estimates of the impact of the new pension legislation on federal expenditures and federal revenues. These will be included in the next Economic Outlook.

Congress cleared legislation in early August that would overhaul the nation's private pension system. The legislation had been debated intensively for many months, and was stalled when a series of unrelated proposals were thrown into the fray. In the end, the tax law provisions and minimum wage increase were removed from the legislation, and the pension bill was passed on its own merits.

The pension bill that was passed aims at requiring companies to fully fund their pension plans and to bolster the finances of the federal agency that insures private pension plans, the Pension Benefit Guaranty Corporation (PBGC). Under the new legislation, companies would be required to fund 100% of their plan liabilities, up from 90% under the current law. Those with funding shortfalls have seven years to make up the difference. Companies at risk of default would be subject to other restrictions and would have to make accelerated contributions. It also provides specific relief for airlines. Congress had already passed legislation, the Deficit Reduction Act of 2005 that mandated significant increases to the fixed-rate premiums paid by employers to the PBGC. The August legislation raises the variable-rate premium paid by underfunded employers and includes provisions aimed at encouraging workers to make contributions to retirement savings plans. All told, the legislation reduces net outlays of the PBGC by about $5.0 billion from 2007 to 2016, and reduces federal tax revenues by $72.9 billion. This results in an increase in the cumulative budget deficit of about $66.4 billion over the same period.

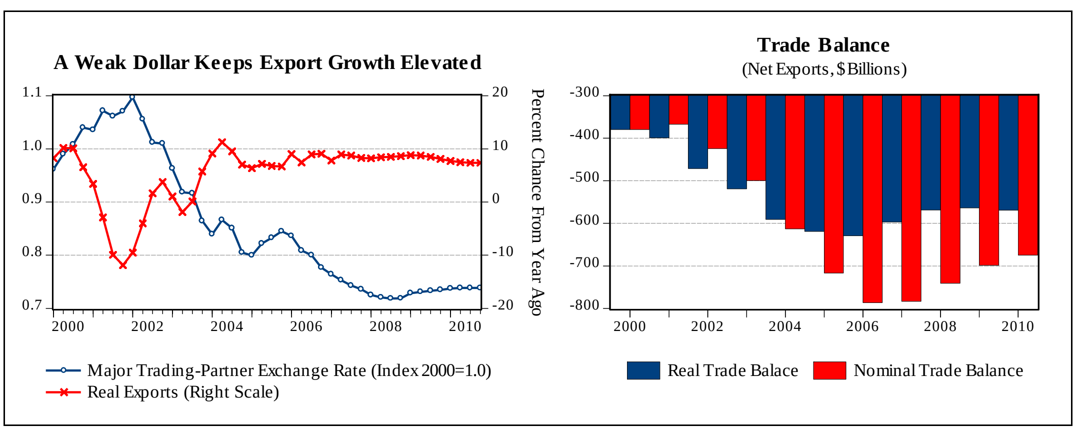
While the passage of the pension reform bill is a welcome development, Congress left key tax legislation in abeyance for now. Perhaps most important of these provisions is the R&D tax credit, which expired at the beginning of 2006. Failure to extend this credit could have a dampening effect on capital spending at the end of 2006 and in 2007.

International Trade

The June trade deficit shrank to $64.8 billion, from a revised May shortfall of $65.0 billion. Exports surged for a second straight month. The real trade deficit is improving, but the nominal deficit will experience upward pressure in 2006 and 2007 due to high oil prices. Real net exports will swing solidly to the plus side and contribute to growth in 2007 and 2008 as exports accelerate, aided by a weaker dollar, while real imports slow down. The level of the June deficit was close to most estimates, including Global Insight's. Exports surged in both months, and have risen 4.2% in the past two months; June exports were 14.0% above a year earlier. Goods exports scored even more impressive gains, surging 5.8% over the two-month span, and rising 16.4% versus a year earlier. Annual GDP revisions did little to the trade deficit, but altered the quarterly pattern. Global Insight's basic premise that the real deficit is stabilizing in the first half and shrinking in the last half of 2006 remains intact.

History now shows real trade deficits in both the last quarter of 2005 and first quarter of 2006 of $636.6 billion. The advance estimate of GDP showed that shortfall narrowing to $627.1 billion and revisions should narrower that further. After a brief third-quarter rise, the real improvement from robust exports kicks into gear and the trade gap falls to $624 billion in the fourth quarter. For calendar year 2006, the real trade shortfall rises to $629 billion from $619 billion in 2005, but the corner is turned in calendar 2007. The real deficit shrinks to $597 in 2007 and $569 in 2008, and averages $568 billion from 2009 to 2011. Nominal deficits improve with a lag, averaging $679 billion from 2009 to 2011 versus a nominal shortfall of $787 billion in 2006.

Chart I.8



The current-account deficit shows a more dramatic deterioration in 2006 as the gap yawns to $877 billion from $792 billion in 2005, and widens further to $914 billion in 2007. The current account records a modest improvement in 2008 to $896 billion but averages $885 billion from 2009 to 2011. Deterioration in transfers and income payments keeps the gap wide.

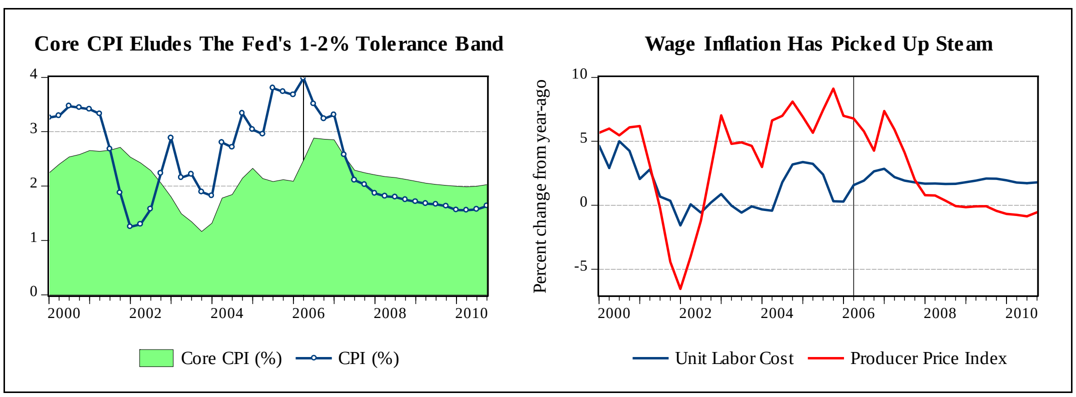
Inflation

Consumer price inflation, excluding food and energy, eludes the Fed's 1-2% tolerance band in the near-to-medium term. Long-term inflation expectations remain anchored. Labor market tightening slows, but labor continues to extract past productivity gains, placing moderate upward pressure on compensation growth. The Fed responds with another rate hike, bringing the federal funds rate to 5.5% on September 20.

Although energy prices have given consumers a small reprieve in June, inflation pressures remained elevated. Despite a 0.9% drop in energy prices, the consumer price index (CPI) rose 0.2% (2.4% annualized). From April through June, the CPI rose at an annual rate of 5.1%, compared to the year-over-year (y/y) increase of 4.3% in June. The core CPI, which excludes the volatile food and energy prices, registered its fourth consecutive monthly gain, of 0.3% (3.6% annualized), significantly quicker than its 12-month pace of 2.6%. The 3.6% annualized increase in the second-quarter core index follows a 2.8% (annualized) increase during the first three months of 2006.

As measured by the index for personal consumption expenditures (PCE) excluding food and energy, the Federal Reserve's preferred gauge, consumer core inflation remained at 0.2% for the third consecutive month. Over the past 12 months, core PCE inflation ran at 2.4%, well outside the Fed's informal 1–2% target zone. Nevertheless, the Fed placed its two-year tightening campaign on hold at the August 8 meeting of the Federal Open Market Committee (FOMC), leaving the federal funds rate at 5.25% and citing inflation pressures that are likely to moderate, "reflecting contained inflation expectations and the cumulative effects of monetary policy actions." Indeed, long-term inflation expectations as measured by the 10-year TIPS spread, the difference between the 10-year conventional Treasury note and the 10-year inflation-protected note, remained anchored in June and July, hovering close to 2.5%.

Chart I.9



Wage pressures have intensified recently, with hourly nonfarm labor compensation rising 5.4% annually in the second quarter. Furthermore, first-quarter hourly compensation came in substantially higher than first reported (6.9% versus 5.3%) due to annual revisions. With productivity rising at a 1.1% annual rate in the second quarter, unit labor costs soared 4.2%, the largest quarterly increase since the fourth quarter of 2004. Pay gains as measured by the employment cost index (ECI), however, are less impressive. Computed using the ECI, unit labor costs rose a comparatively milder 2.5% during the second quarter.

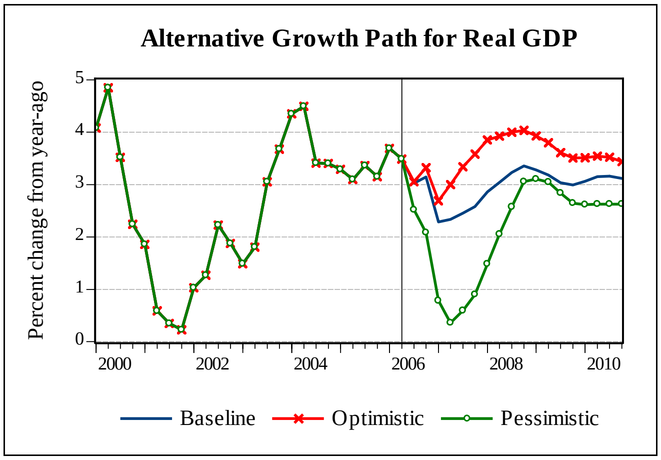
With core PCE inflation running at 2.3% y/y in the second quarter, further slippage from the Fed's 1–2% tolerance band is expected in the coming months. The August forecast calls for year over year core PCE inflation to run at 2.5% and 2.4% in the third and fourth quarters of 2006, respectively. Slower output growth and a looser labor market allow unit labor costs to decelerate and core PCE inflation to fall to 2.1% (fourth quarter-to-fourth quarter basis) in 2007. Core PCE inflation does not drop back to the 2% mark until 2009. Consistent with this forecast, it is assumed that the Fed will raise the federal funds target to 5.50% on September 20.

The long-term outlook assumes that the Fed continues to remain credible as it moves closer to an explicit inflation-targeting regime. The current 10-year outlook assumes that the Fed keeps year-on-year core PCE inflation hovering near 2% during 2008 and beyond.

RISKS TO THE FORECAST

The latest readings on productivity were unclear. Nonfarm business productivity growth slowed to a crawl in the second quarter, and its historical estimates were revised down in the latest National Income and Product Account annual revisions. But the productivity of nonfinancial corporations was growing 4.6% (year-over-year) in the first quarter, or nearly double the nonfarm business rate of 2.4%. The productivity of nonfarm business and of nonfinancial corporations are equally valid measures of productivity. One is based on output as measured by production, the other as measured by income. In principle, both should grow at similar rates. The gap implies that productivity may be growing a lot faster than the headline numbers imply.

Chart I.10



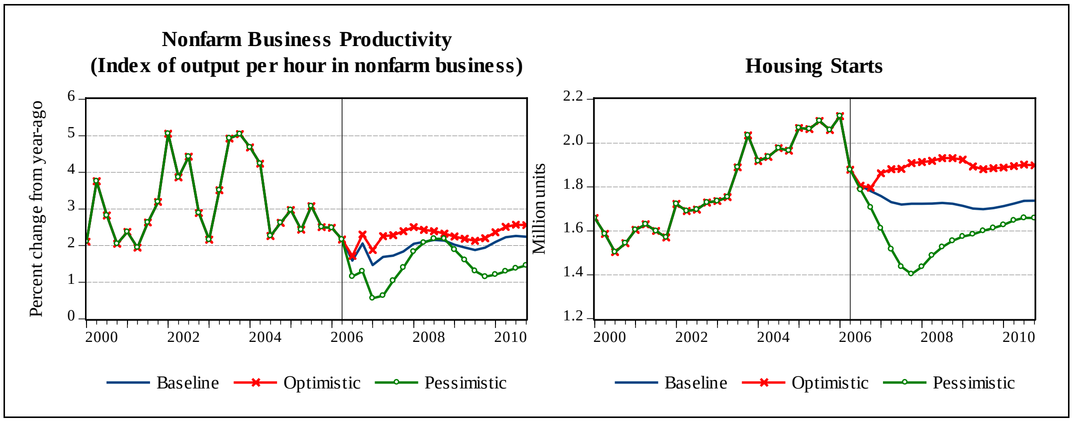
In the August forecast, nonfarm productivity increases 2.3% on average through 2016. This is below the sizzling 3.5% average achieved from 2001 to 2004, but still above the 2.1% average of the past 50 years. Based on the second measure of productivity, though, an argument could be made that our forecast is too low. Indeed, many economists in academia believe that the productivity boom may last another decade, if not longer. Their premise is that the contribution that information technologies have made to productivity has yet to run its course. The optimistic scenario incorporates this view, and also focuses on the momentum being created by the investment recovery. As the decade-long expansion of the 1990s showed, once an economy gets up a head of steam, it is difficult to slow it down. Indeed, the optimistic scenario resembles the late 1990s, when it seemed that the good times would last forever.

The pessimistic scenario focuses on the upward pressures on global commodity prices, notably for energy, and the downward trend in the dollar, with their negative implications for inflation, bond yields, and domestic demand. The simulation also includes a deeper housing downturn than the baseline. This alternative forecast resembles the late 1970s, when it seemed the bad times would never end. Indeed, as the 1970s demonstrated, economic malaise is difficult to shake as well.

The Optimistic Scenario: Only a Brief Slowdown (20% Probability)

Seven assumptions distinguish the optimistic scenario from the baseline forecast. First, total factor productivity, a concept that roughly measures how innovations augment economic growth, is stronger. Underlying this assumption is the view that the information-driven technology boom, which may have accelerated in recent years, continues. In the optimistic scenario, rapid productivity growth is the main reason why economic growth and employment gains are higher and inflation and budget deficits are lower than in the baseline. It is also one reason why the dollar is stronger. In conjunction with productivity gains, the stronger currency will help contain inflation.

Chart I.11



Second, foreign economic growth is stronger, which boosts U.S. exports and strengthens domestic manufacturing. In this scenario, both developing and industrialized economies grow faster than in the baseline. As a result, real exports exhibit faster growth throughout the forecast period.

Third, the optimistic alternative assumes a stronger dollar, resulting in expansion of U.S. demand for foreign goods and services. In the near term, stronger economic growth compounds the effect of the stronger dollar, resulting in lower net exports and a larger current-account deficit than in the baseline. As productivity gains improve U.S. competitiveness, however, both the trade and current-account deficits begin to narrow, gradually reducing the gap with the baseline forecast.

Fourth, business investment is stronger. Today's level of business spending is below average by historical standards. In 2005, business fixed investment accounted for 10.2% of GDP, more than a full percentage point below the average over the previous 25 years despite strong fundamentals (economy growing faster than trend and low interest rates). In this scenario, business spending (particularly on equipment and software) is much higher than in the baseline throughout the forecast period. By 2010, for example, it accounts for 11.3% of GDP, compared with 10.5% in the baseline.

Fifth, the federal government budget deficit in the optimistic scenario is lower than in the baseline. As the U.S. economy performs better, tax revenues increase, and federal transfer payments decrease, leading to smaller deficits. Also contributing are lower interest rates, which result in lower federal interest payments.

Sixth, housing starts are stronger. The main factors driving starts up in the optimistic scenario are better job growth, lower interest rates, higher consumer confidence, and lower long-term mortgage rates.

Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices run about $8/barrel lower and wellhead natural gas prices about 7.5% lower.

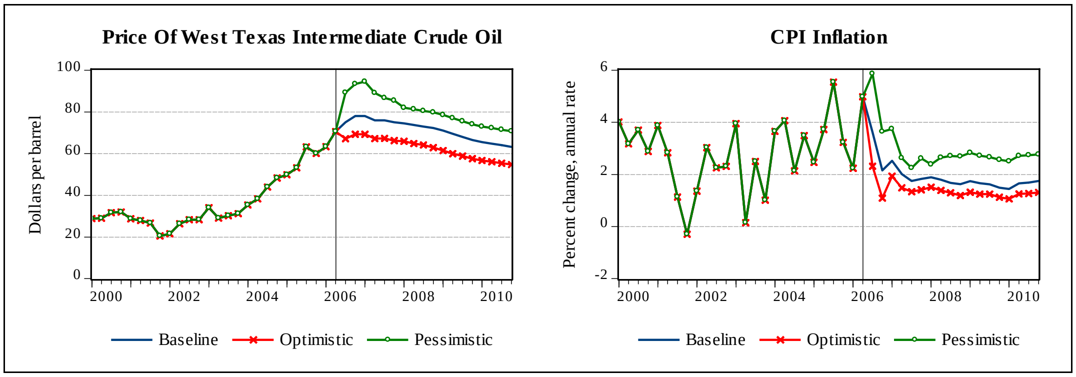
These assumptions produce a rosier outlook. The second-quarter slowdown to 2.5% growth proves temporary, and GDP growth averages 3.3% in 2006 and 3.6% in 2007. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation rate allows the Federal Reserve to keep the federal funds rate below the baseline value. Since productivity growth is stronger, potential GDP growth is higher and remains so throughout the forecast period.

The Pessimistic Scenario: Inflation Returns (25% Probability)

After a quarter-century of declining inflation, signs of reacceleration are emerging. A tripling of oil prices, a downtrend in the dollar, a long period of accommodative monetary policy, and loose fiscal policy may have produced the conditions for a serious acceleration of inflation. The Federal Reserve is counting on continuing strong productivity gains, together with its measured tightening, to keep inflation at bay, but perhaps this is too sanguine a view.

The pessimistic alternative assumes that there is less spare capacity than thought, both globally and in the U.S. economy. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. It assumes that the dollar weakens quickly as foreign investors take fright at the spiraling U.S. trade deficit. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation.

Chart I.12



In the pessimistic scenario, core inflation keeps gathering momentum. The Fed responds by accelerating the pace of tightening. Despite the more aggressive stance, both the stock and bond markets slip on signs that the Fed may have let inflation build up an unstoppable momentum. The Fed cannot permit this acceleration to continue, and so it continues hiking interest rates. The federal funds rate averages 7.14% in the first quarter of 2007, compared with 5.50% in the baseline.

This simulation also has a deeper housing downturn than the baseline. Housing starts drop to 1.49 million in 2007 (compared with 1.73 million in the baseline). The average price of an existing home drops 9% below the baseline in late 2007 and remains below it over the forecast period.

Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in their discretionary spending and the U.S. economy slows. Core inflation stabilizes, but fails to retreat sufficiently, worrying the Federal Reserve. At the same time, hiring falters, causing the unemployment rate to climb. The Fed, forced to choose between fighting inflation and encouraging economic and employment growth, focuses on the long-term consequences of its policy and chooses to battle inflation, and, in fact, inflation eventually tapers off. Debt-laden consumers retrench further. Finally, early in 2008, with the unemployment rate at 6.1% and the federal funds rate at 7.75%, the Fed decides to hold. With the weaker dollar boosting trade, GDP growth begins to accelerate, bringing the unemployment rate down. As investment activity picks up, potential output increases relative to actual output, easing the upward pressure on prices.

The economy does not sink into recession in the pessimistic alternative (although growth is less than 0.5% in the first half of 2007), but falls well below its potential, with GDP growth coming in at just 0.7% in 2007. Production shifts from satisfying domestic demand to serving foreign demand, which responds strongly to the weaker dollar. The ground lost relative to the baseline is never made up, though, and real GDP is more than 5.0% below its baseline level at the end of 2016.

A summary of the U.S. forecast is contained in Appendix 1.

WISCONSIN OUTLOOK

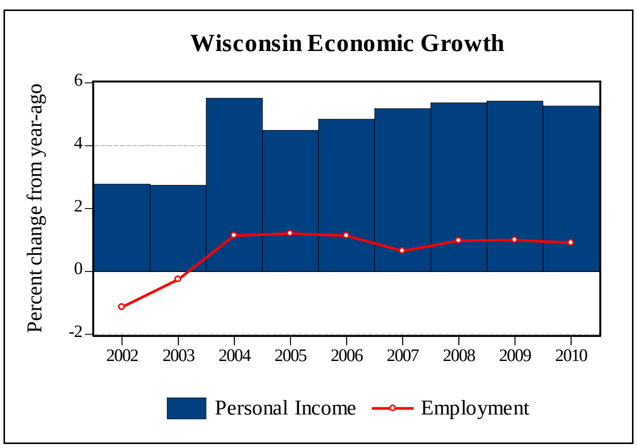
The Wisconsin economy showed continued growth in the first half of 2006. Since the last report, new preliminary data for the first quarter of 2006 show annual growth in Wisconsin personal income of 6.7%, while total employment continues to grow at 1.1% for the first half of 2006.

In June, the Bureau of Economic Analysis (BEA) released the preliminary figures for the first quarter of 2006 and revised income data for 2005. While both total personal income and wages were revised downward for all four quarters of 2005, on a year-over-year basis, Wisconsin personal income still grew by a healthy 4.5% in 2005 and wages and salaries grew by 4.1%. The major revisions were to wages and salaries and supplements to wages and salaries.

New data on employment for the second quarter of 2006 show a healthy annual rate of growth of 1.2%, equaling the growth in 2005. Wisconsin total nonfarm employment posted 2.88 million jobs in the first quarter of 2006. The Wisconsin forecast is a positive one, despite a more severe national slowdown than that assumed in the May forecast, led by higher energy prices, a cooling housing sector, and an ease in consumption. The impact of the slowdown is expected to be offset, in part, by higher business investment and stronger exports as the dollar starts to weaken.

Wisconsin personal income is forecast to grow 4.8% in 2006 and employment is expected to show a healthy rise of 1.1%. The employment forecast for 2007 shows an employment growth rate of 0.7% as a consequence of assumed higher oil prices that have a negative impact on Wisconsin's economy which is oil import dependent. In the long-term, following the national trend, employment is anticipated to grow an average of 1.0% from 2008 to 2010. Personal income is expected to show an average growth rate of 5.3% from 2007 to 2010. However, the inflation risk could harm real personal income growth if core inflation continues to grow at a 2.4% annualized rate; this is well above the Fed's 1-2% tolerance band.

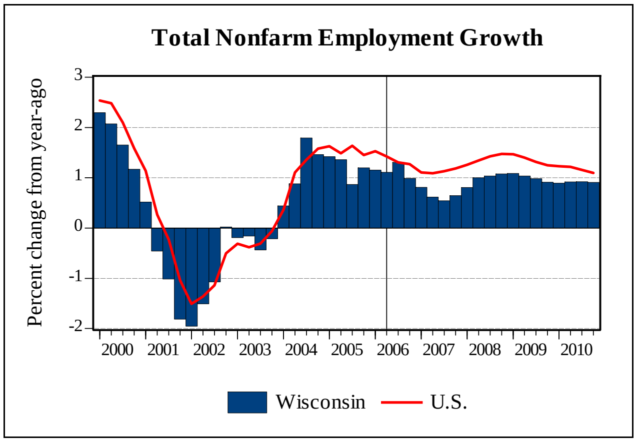
Chart I.13



Employment Outlook

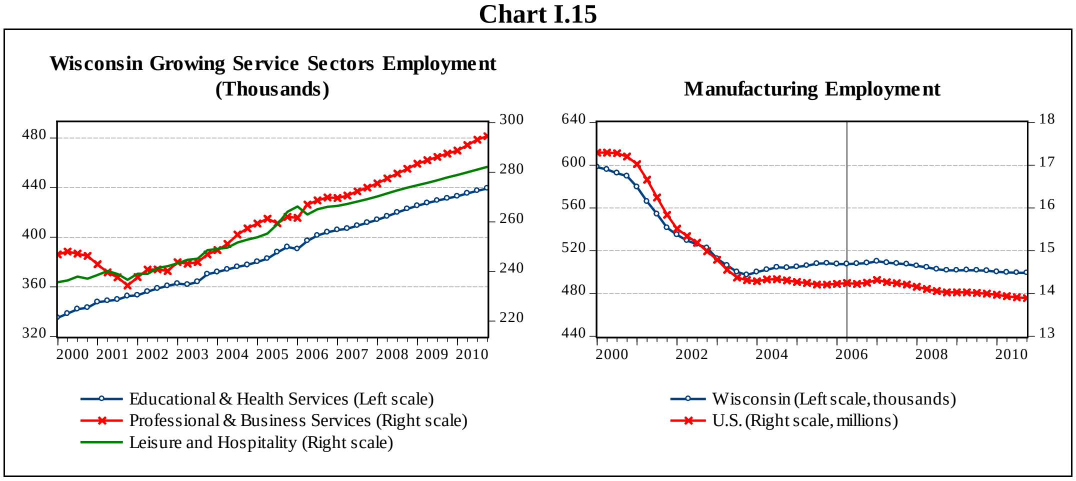
Wisconsin employment growth of 1.2% in 2005 compares to the 1.5% national growth; Wisconsin is expected to grow 1.1% in 2006. After a mild slowdown in 2007 due to higher oil prices, employment is expected to grow around 1.0% towards 2010. The Wisconsin unemployment rate will probably remain steady around 5.0% throughout the year as employment growth closely matches labor force growth. The unemployment rate in Wisconsin for the second quarter of 2006 was above the unemployment rate in the nation by just a tenth of a percentage point.

Chart I.14



Industries that showed the greatest employment gains for 2005 were professional and business services (3.0%), education and health services (2.9%), and leisure and hospitality services (2.9%); these sectors continue to show strong growth during the first half of 2006. The leisure and hospitality services industry is expected to grow 2.7% in 2006. Education and health services and professional and business services are expected to grow 2.5% and 2.3% respectively, on average, between 2006 and 2010 (see Chart I.15). The construction industry showed an acceleration in the last quarter of 2005 and the first quarter of 2006, but in the second quarter of 2006 signs of a cooling housing market were clear. The slowdown in the housing market had a direct impact on employment in the construction industry, which decreased 3.9% in the second quarter of 2006. As home sales decline and inventories are building, new housing starts and construction employment are expected to gradually decline for the next several years.

Chart I.15



Compared to the service sectors, manufacturing employment in Wisconsin is expected to show a smaller but still positive gain of 0.2% in 2006 and 0.1% in 2007 (see Chart I.15). Wisconsin manufacturing employment in 2005 increased 0.8%, whereas the national manufacturing employment fell 0.6%. As Chart I.15 indicates, Wisconsin manufacturing industries will continue to maintain a slight growth advantage over the U.S. as a whole over the next several years. The number of Wisconsin manufacturing jobs is expected to average 504,300 between 2006 and 2010, representing 17.3% of total nonfarm employment in the state. The trade, transportation and utilities industry (80% belongs to the trade sector) showed low but positive 0.5% and 0.2% growth for 2004 and 2005 respectively. It is expected to stay flat in 2006, as high oil prices and the housing slowdown impact consumer spending. However, it is expected to recover gradually in the next several years, after a low but positive growth rate of 0.3% in 2007.

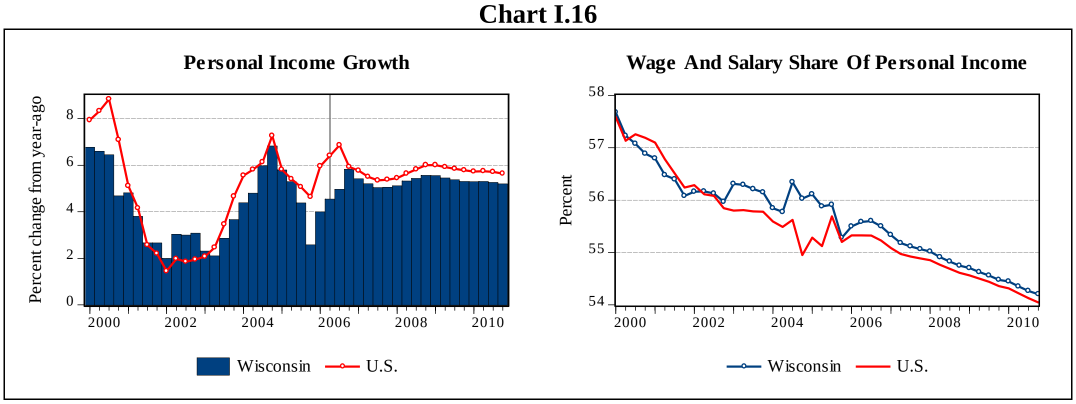
Details of the Wisconsin employment forecast are presented in Appendices 2 and 3.

Income Outlook

Recent revisions to 2005 personal income from the BEA resulted in downward revisions, not just for Wisconsin but for the U.S. as well. Quarterly personal income estimates for the first quarter 2006 and revisions for all four quarters of 2005 were released June 22, 2006. The revised estimates reflect newly available and revised source data and improved estimating methodologies. The last quarter of 2005 shows the largest revisions for each component of the personal income. Wisconsin personal income growth was revised down from 5% to a still healthy 4.5% for 2005. The major downward revisions were to wages and salaries, supplements to wages and salaries, residence adjustment, and contributions to government social insurance. The wages and salaries growth rate for 2005 was revised from 4.8% to 4.1%, while supplements to wages and salaries growth figure was 6.3%, down from 7.2%. Proprietor's income, dividend, and interest income show small downward revisions. Rental income is the only component with a small positive revision.

In the first quarter of 2006, BEA reports total personal income grew at an 4.3% annualized rate with wage and salary income increasing at an 4.1% annual rate. However, evidence from DOR withholding receipts and from DWD unemployment compensation records indicates that wage growth in the first quarter of 2006 was probably 8.3% and total personal income growth was 6.7%. These DOR estimates of 2006 first quarter income are reported in Appendices 4 and 5. Given the new data on personal income for 2005, total personal income is forecast to grow 4.8% in 2006. It is then expected to resurge again in 2007 growing at 5.2% and sustain that level of growth from 2006 through 2010.

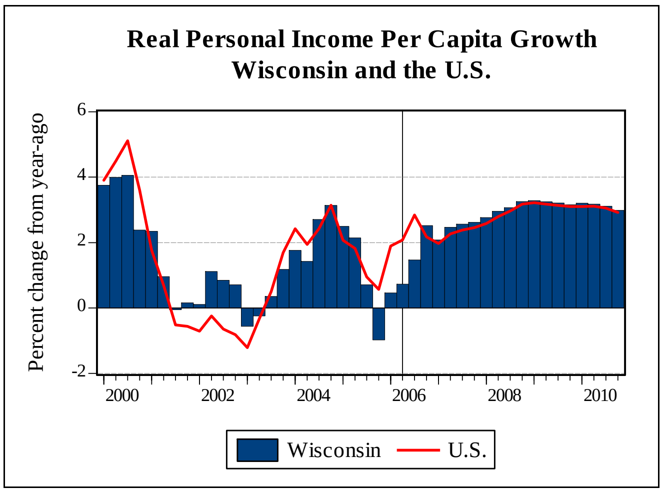
Chart I.16



Wage and salary income is expected to grow by 4.4% in 2006 and 4.5% in 2007, in response to the slowdown due to high commodity prices and a cooling housing market that will dampen consumer spending. Between 2008 and 2010, wage and salary income is forecast to grow 4.8%, on average. The wage share of total personal income resumed its long-term downward trend for both Wisconsin and the U.S., as shown in Chart I.16. Wisconsin's wage share of personal income during 2005 was 55.8% after having been as high as 62% in the early 1960s.

Disposable personal income (total personal income minus personal taxes) in Wisconsin for 2005 was almost unchanged because the revisions also revised down the personal taxes item, leaving a 3.8% growth rate for 2005. Higher national forecast for personal taxes (based on actual data) keep the disposable income growth rate at 4.0% in 2006. As personal taxes grow at an average rate of 5.4% between 2007 and 2010, the disposable personal income will grow at an average rate of 5.3%.

Chart I.17



Lower revised personal income for 2005 yielded a 2005 real personal income growth of 1.6%. For 2006, real personal income is expected to show little improvement growing at 1.8%, reflecting a higher nominal personal income forecast but offset, in part, by the higher prices forecast, the latter capturing the high readings of core CPI during the last few months. As better growth revives in 2007; real personal income growth for the period 2007-2010 is expected to be 3.4% on average. On a per capita basis, real income is expected to increase 1.3% in 2006 and then recover rapidly from 2007 to 2010 growing at an average rate of 2.9%.

Details of the Wisconsin income forecast are presented in Appendices 4 and 5.

METROPOLITAN AREA OUTLOOK

All of Wisconsin's metropolitan areas saw growth in their economies this year. Statewide, employment grew by 1.2% in 2005; metropolitan employment grew by 1.1%. Employment growth well above this average occurred in Eau Claire, Madison, Sheboygan, and Wausau, while Janesville-Beloit, Oshkosh-Neenah and Racine also posted strong growth. Employment grew in Appleton, Fond du Lac, Green Bay, La Crosse, and Milwaukee-Waukesha but at a slower pace.

Statewide employment is forecast to grow 1.1% in 2006, whereas metropolitan employment is expected to grow 0.9%.

Wisconsin’s metropolitan areas should see growth in total personal income of 4.4% in 2005 and 4.9% this year. Personal income growth for the entire state is estimated to be 4.5% in 2005 and is projected to be 4.8% this year.

Income data for all metropolitan areas through 2004 is from the U.S. Bureau of Economic Analysis. Income data for the years 2005 and beyond are model-based estimates. Employment data for metropolitan areas are from the Wisconsin Department of Workforce Development.

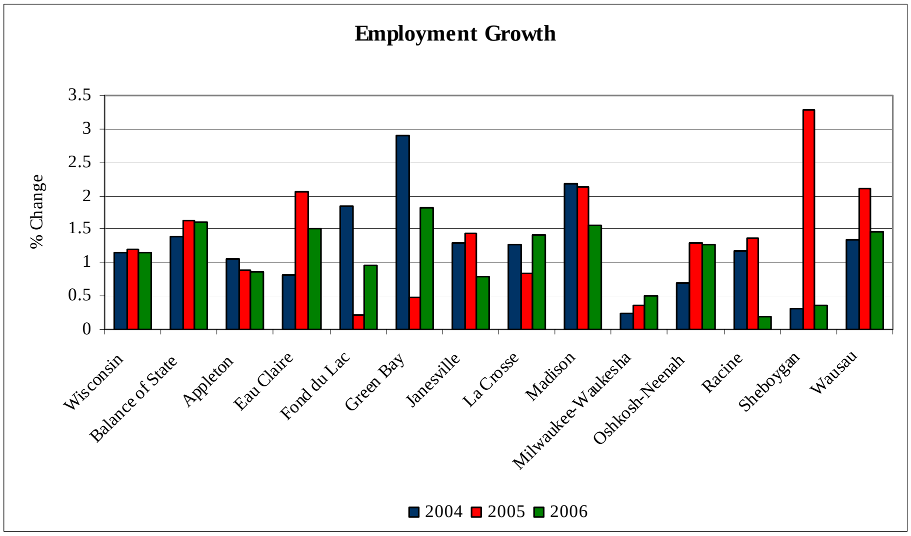
The Metropolitan Area forecast is based on the August 2006 Global Insight U.S. forecast and the related forecast of the Wisconsin economy presented in this report. The forecast is produced by a model that distributes Wisconsin statewide economic forecast to the underlying metropolitan areas.

Forecast

This year shows a mixed employment picture across the state (see Chart I.18). Those areas that saw accelerated growth in 2005 are expected to see slower growth in 2006. Eau Claire, Janesville-Beloit, Racine, Sheboygan, and Wausau reflect this pattern. Both Eau Claire and Wausau are expected to grow 1.5% in 2006 after growing 2.1% in 2005. The Janesville-Beloit area is expected to grow 0.8% in 2006 after a growth of 1.4% in 2005. Employment in Racine is expected to grow 0.2% in 2006 after growing 1.4% in 2005. Sheboygan is forecast to grow 0.4% in 2006 following a 3.3% growth in 2005. On the other hand, those areas that saw decelerated growth in 2005 relative to 2004 are expected to see stronger employment growth in 2006. Fond du Lac is expected to grow 1.0% in 2006 after only 0.2% growth in 2005. The Green Bay area is forecast to see a 1.8% growth in employment in 2006 compared to 0.5% growth in 2005. La Crosse is expected to grow 1.4% in 2006 after growing 0.8% growth in 2005.

Employment in the Madison area grew 2.1% in 2005 and is expected to grow 1.6% in 2006. Employment in the Milwaukee-Waukesha area is expected to continue its modest improvement with 0.5% growth in 2006 following a 0.4% growth in 2005. Oshkosh-Neenah is expected to see 1.3% growth in 2006, the same as in 2005.

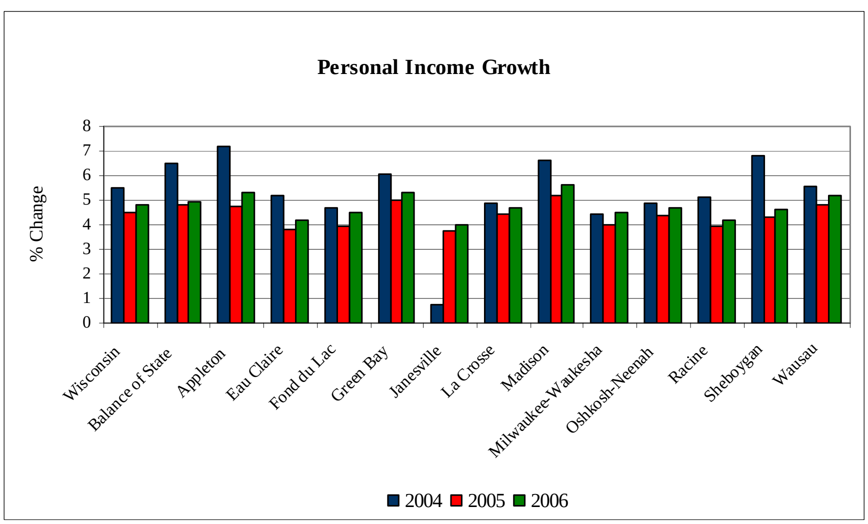
Chart I.18



Over the 2007 to 2010 period, employment growth between 0.7% and 1.0% is forecast for the state as a whole. The fastest growing metro areas in the state for this period are expected to be Eau Claire, Green Bay, Madison, and Wausau. Employment growth near the statewide average is expected in the Appleton, Fond du Lac, La Crosse, Oshkosh-Neenah, and Sheboygan areas. Employment growth less than the statewide average is expected in the Janesville-Beloit, Milwaukee-Waukesha, and Racine areas.

Data released by the U.S. Bureau of Economic Analysis show that total personal income increased 4.5% in 2005 for the state as a whole. Based on this information and 2005 employment estimates from the Department of Workforce Development, we have estimated that in 2005 personal income increased in Wisconsin's metropolitan areas at rates ranging from 3.7% in the Janesville-Beloit area to 5.2% in the Madison area (see Chart I.19). The current forecast foresees Wisconsin total personal income increasing by 4.8% in 2006. Total personal income is projected to increase by more than 5% this year in four of the 12 metropolitan areas. Another seven areas will see income growth accelerating to over 4% this year.

Chart I.19



Wisconsin personal income is forecast to increase 5.2% in 2007, 5.4% in 2008 and 2009, and 5.3% in 2010.

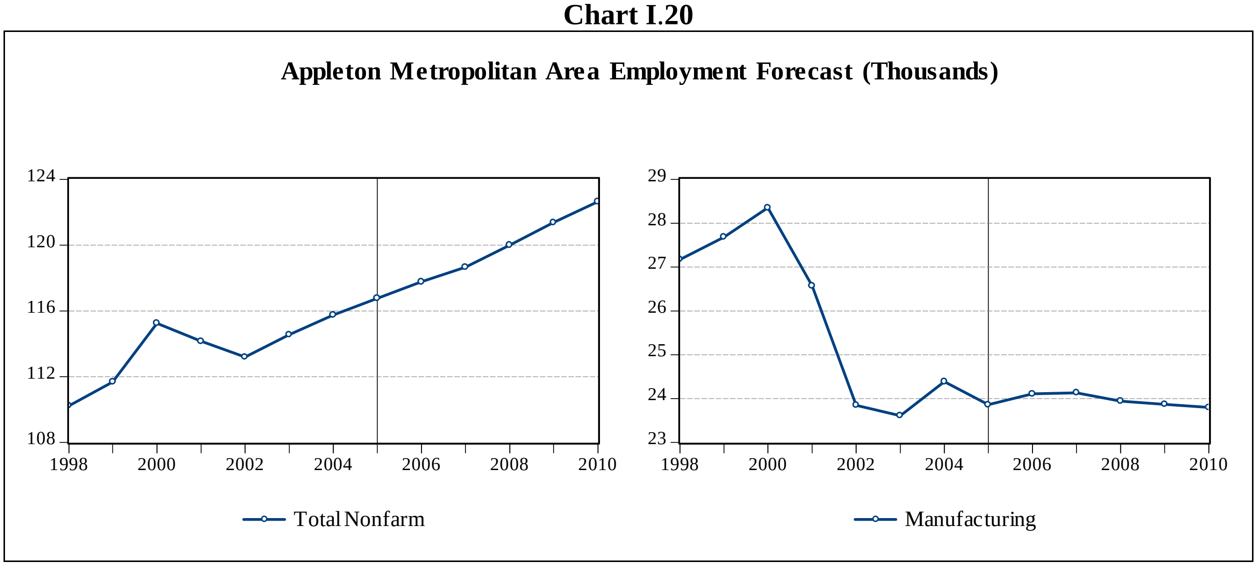
Details of the Metropolitan area forecast are found in Tables I.1 and I.2. Table I.1 shows total nonfarm employment and Table I.2 shows total personal income for the 2005 to 2010 periods.

Appleton

The Appleton area experienced a 0.9% increase in employment in 2005 and is expected to grow 0.9% in 2006. The 2.2% decline in manufacturing jobs in 2005 was offset by job growth in professional and business services (12.2%), education and health services (2.6%), and other services (2.6%). Total nonfarm employment is expected to increase between 0.8% and 1.2% for the 2006-2010 periods, with the growth coming from non-manufacturing sectors. Manufacturing is expected to show flat to slightly negative growth for the forecast period.

Total personal income is forecast to increase 4.8% in 2005. In 2006 and 2007, income growth is expected to be 5.3% and 5.7% respectively. The 2008-2010 periods should see personal income growing between 5.7% and 5.9% annually.

Chart I.20



APPLETON METROPOLITAN AREA FORECAST

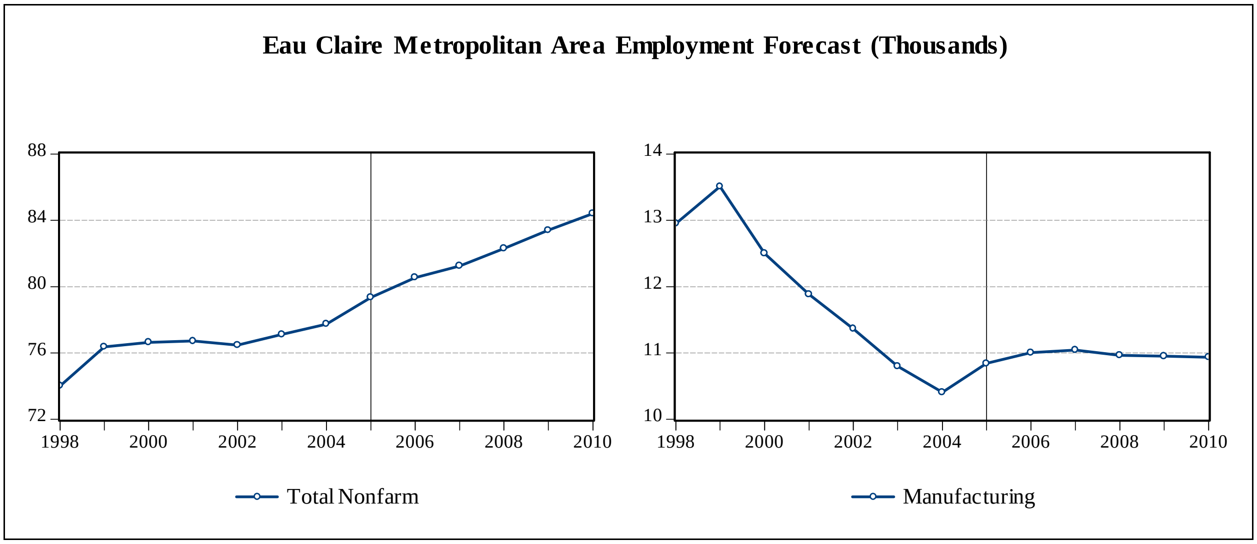
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	115.8	116.8	117.8	118.7	120.0	121.4	122.6
(% change)	1.0	0.9	0.9	0.8	1.1	1.2	1.0
Total Personal Income ($ billions)	7.0	7.3	7.7	8.1	8.6	9.1	9.7
(% change)	7.2	4.8	5.3	5.7	5.9	5.9	5.7

Eau Claire

Employment in the Eau Claire area grew at 2.1% in 2005. This growth has occurred due to solid growth in manufacturing jobs (4.2%) and service industry employment, particularly in trade, transportation, and utilities (3.8%) and leisure and hospitality services (2.4%). Total nonfarm employment is expected to increase 1.5% in 2006, followed by a 0.9% increase in 2007. Thereafter, employment is expected to increase between 1.2% and 1.3% per year through the forecast period.

The outlook for growth in total personal income is also positive. After an estimated 3.8% gain in 2005, total personal income in the Eau Claire area is expected to increase 4.2% in 2006. In 2007, personal income is forecast to increase 4.5%, followed by annual increases averaging 4.7% for the remainder of the forecast period.

Chart I.21



EAU CLAIRE METROPOLITAN AREA FORECAST

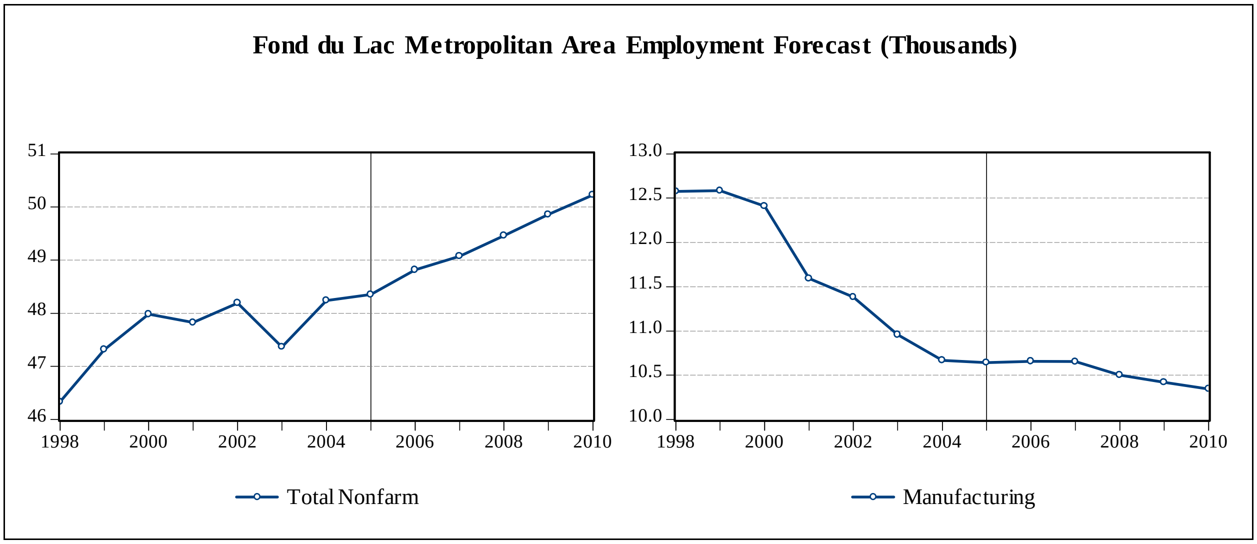
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	77.7	79.4	80.6	81.3	82.3	83.4	84.4
(% change)	0.8	2.1	1.5	0.9	1.3	1.3	1.2
Total Personal Income ($ billions)	4.3	4.4	4.6	4.8	5.1	5.3	5.6
(% change)	5.2	3.8	4.2	4.5	4.7	4.8	4.7

Fond du Lac

Manufacturing employment in the Fond du Lac area continues to decline, falling by a 0.2% in 2005. The trade, transportation, and utilities sector, the second largest sector in the area, also declined by 0.7% in 2005. However, total nonfarm employment increased 0.2% in 2005 with positive contributions from the service sectors, particularly the educational and health services sector (1.0%), the information sector (1.8%), the professional and business services sector (3.3%) and the leisure and hospitality sector (1.3%). Total nonfarm employment is expected to grow 1.0% in 2006, followed by growth rates between 0.5% and 0.8% for the 2007-2010 periods. Manufacturing jobs are expected to hold steady through 2007 with declines forecasted for the 2008-2010 period, ranging from -0.7% and -1.42%.

Total personal income is forecast to increase by 3.9% in 2005, followed by 4.5% growth in 2006. Personal income is expected to grow between 4.8% and 5.0% for the remainder of the forecast period.

Chart I.22



FOND DU LAC METROPOLITAN AREA FORECAST

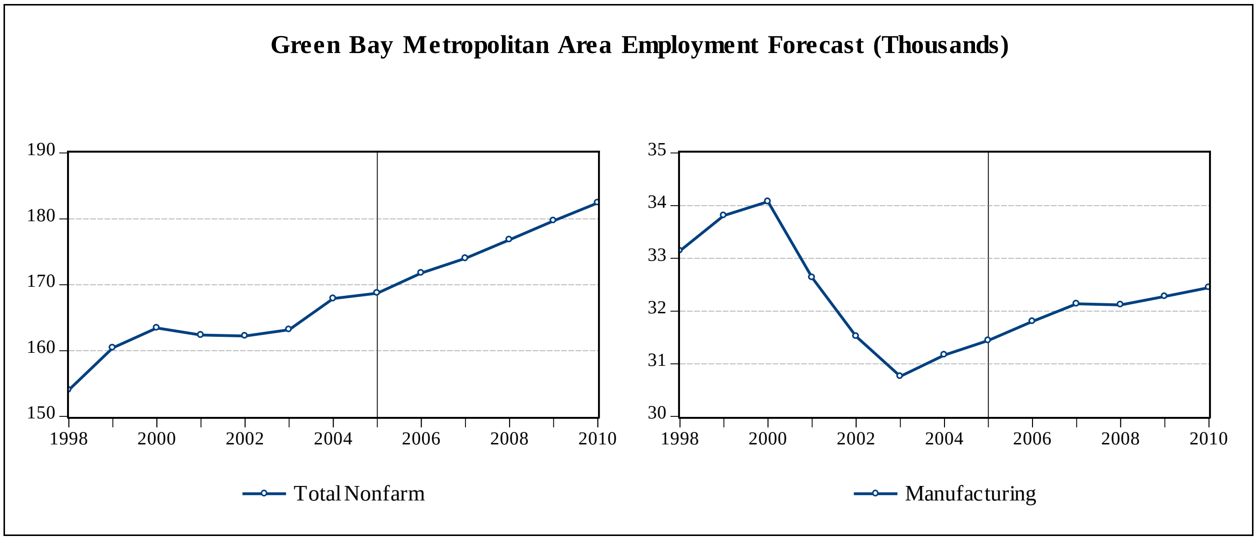
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	48.2	48.4	48.8	49.1	49.5	49.9	50.2
(% change)	1.8	0.2	1.0	0.5	0.8	0.8	0.7
Total Personal Income ($ billions)	3.1	3.2	3.4	3.5	3.7	3.9	4.1
(% change)	4.7	3.9	4.5	4.8	5.0	5.0	4.9

Green Bay

Employment in the Green Bay area grew a modest 0.5% in 2005. Sectors that saw declines in employment were trade, transportation, and utilities (-1.0%), other services (-1.3%), and government services (-.3%). Offsetting these declines were growth in manufacturing (0.9%), educational and health services (0.5%), professional and business services (4.5%), and leisure and hospitality (2.2%). Employment is expected to show a 1.8% growth in 2006, due in part to a rebound of 1.1% in manufacturing jobs. Total employment is expected to grow 1.3% in 2007 as manufacturing continues to grow another 1.1%. Employment growth is expected to grow between 1.5% and 1.6% in the 2008 to 2010 period.

Total personal income in the Green Bay area is projected to increase 5.0% in 2005 and is forecast to grow by 5.3% in 2006, followed by growth rates between 5.6% and 5.9% for the remainder of the forecast period.

Chart I.23



GREEN BAY METROPOLITAN AREA FORECAST

	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	167.9	168.7	171.8	174.0	176.8	179.7	182.4
(% change)	2.9	0.5	1.8	1.3	1.6	1.6	1.5
Total Personal Income ($ billions)	9.4	9.9	10.4	11.0	11.6	12.3	13.0
(% change)	6.0	5.0	5.3	5.6	5.8	5.9	5.7

Janesville-Beloit

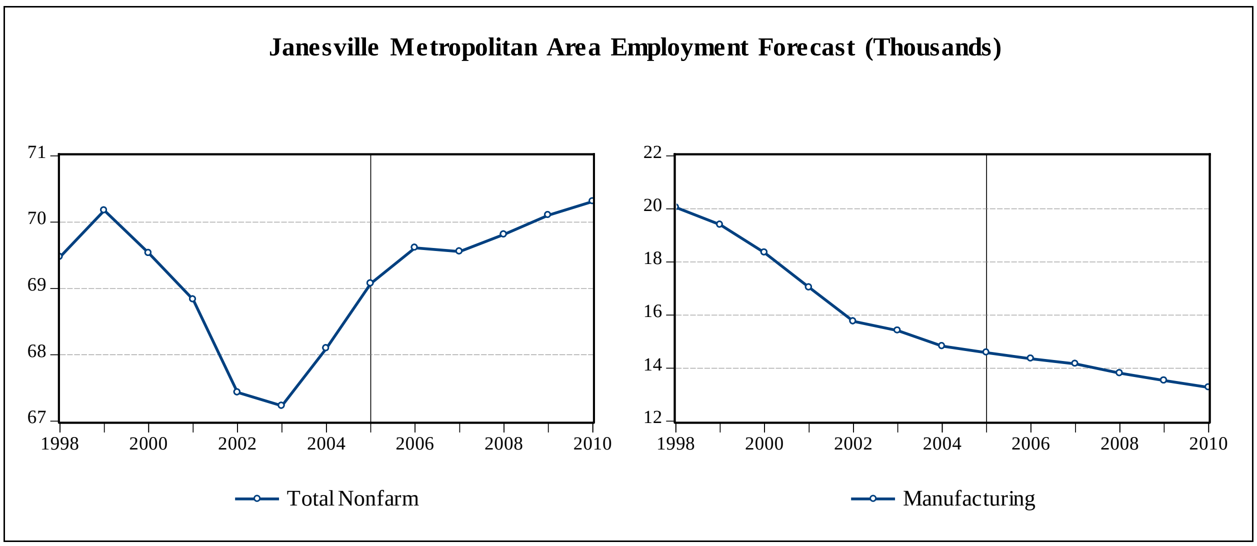
Employment in the Janesville-Beloit area grew 1.4% in 2005 and is expected to grow 0.8% in 2006. Employment is expected to drop slightly by 0.1% in 2007 but is expected to pick up modestly at 0.4% annual growth for 2008 and 2009. Thereafter, it is expected to grow 0.3% in 2010.

While the manufacturing sector lost some jobs in 2005, declining by 1.6%, other sectors showed strong growth. In particular, trade, transportation, and utilities grew 3.0%; educational and health service jobs grew 4.5%. Leisure and hospitality grew 3.6%, and other services grew 8.6%.

Manufacturing jobs in Rock County, (Janesville-Beloit MSA) are expected to create a drag on total employment for the forecast period, declining by 1.5% in 2006, 1.4% in 2007 and 1.9% through 2010. However, employment growth in the service sectors should provide support for positive but slow employment growth over the forecast period.

Total personal income is forecast to grow 3.7% in 2005. Personal income is expected to show continued growth for the 2006-2010 period, ranging from 4.0% in 2006 to 4.4% in 2010.

Chart I.24



JANESVILLE-BELOIT METROPOLITAN AREA FORECAST

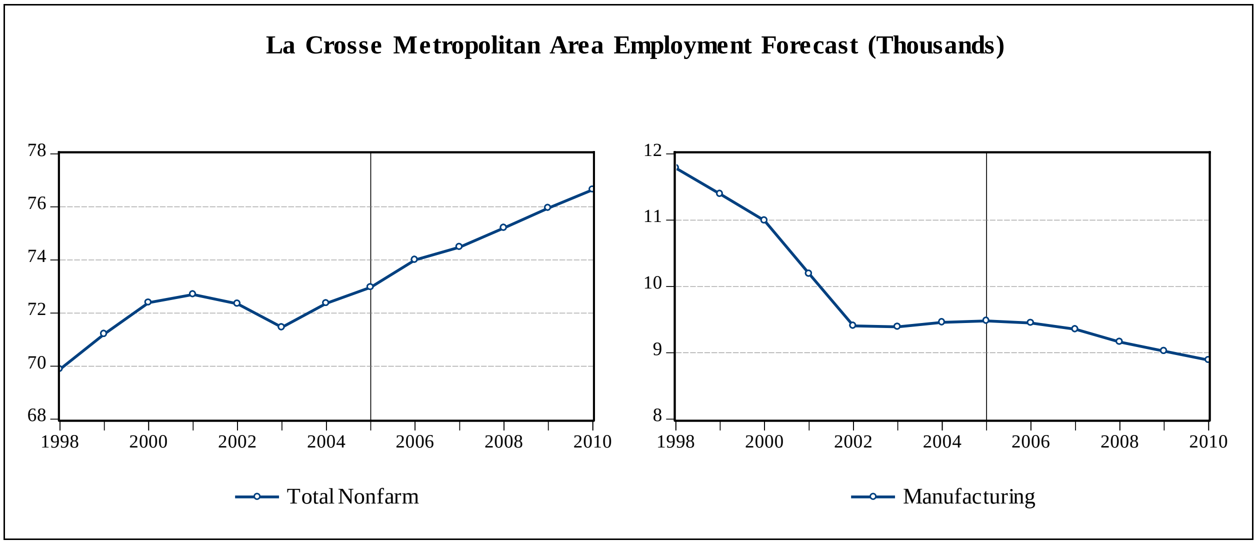
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	68.1	69.1	69.6	69.6	69.8	70.1	70.3
(% change)	1.3	1.4	0.8	-0.1	0.4	0.4	0.3
Total Personal Income ($ billions)	4.4	4.6	4.8	5.0	5.2	5.4	5.7
(% change)	0.7	3.7	4.0	4.3	4.5	4.5	4.4

La Crosse

In 2005, employment grew 0.8% and is expected to grow 1.4% in 2006. Growth in employment will decelerate in 2007, growing at 0.6%. Employment will pick up for the remainder of the forecast period with growth between 0.9% and 1.0%, matching closely the state of Wisconsin average. Manufacturing grew a modest 0.3% in 2005, but strong growth was reported in the trade, transportation, and utility sector (2.6%), the professional and business service sector (3.1%) and the educational and health service sector (2.6%).

Total personal income is forecast to increase by 4.4% in 2005 and 4.7% in 2006. For the remainder of the forecast period, total personal income is forecast to increase between 5.0% and 5.3% annually.

Chart I.25



LA CROSSE METROPOLITAN AREA FORECAST

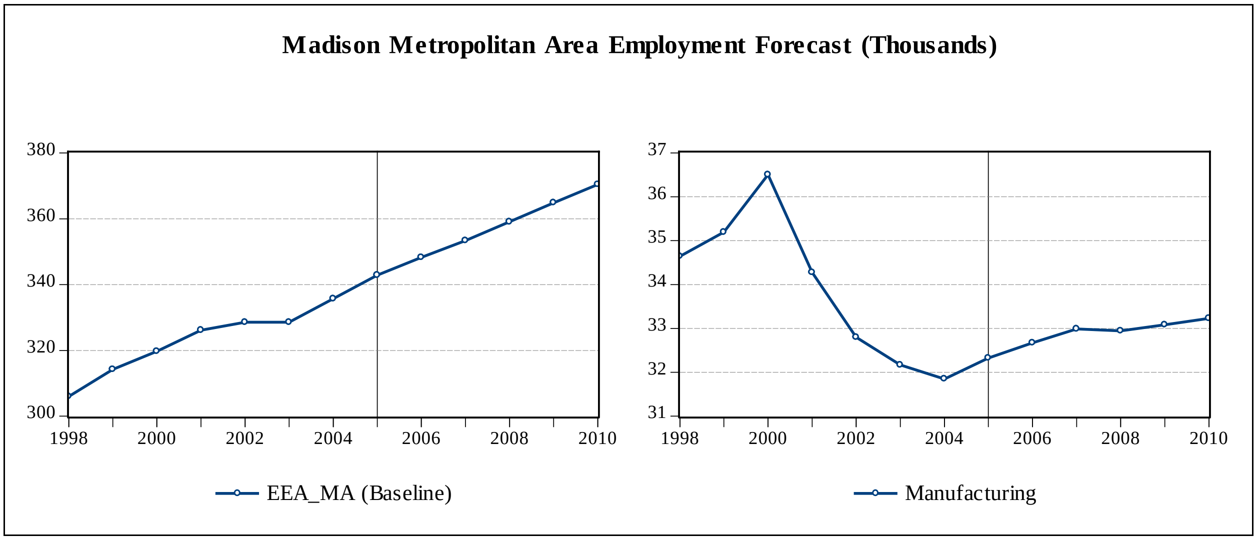
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	72.4	73.0	74.0	74.5	75.2	76.0	76.6
(% change)	1.3	0.8	1.4	0.6	1.0	1.0	0.9
Total Personal Income ($ billions)	3.8	4.0	4.2	4.4	4.6	4.9	5.1
(% change)	4.9	4.4	4.7	5.0	5.2	5.3	5.2

Madison

The Madison area grew 2.1% in 2005 and is projected to see employment increase 1.6% in 2006. The professional and business services sector contributed to the employment growth last year (6.4%), and the financial activities sector increased 5.3%. Also showing strong growth were the information services sector (9.4%) and the leisure and hospitality sector (2.8%). Over the forecast period, employment growth is expected to grow between 1.5% and 1.6% annually.

Total personal income is forecast to increase 5.2% in 2005 and 5.6% in 2006. Personal income is forecast to increase around 6.0% throughout the forecast period.

Chart I.26



MADISON METROPOLITAN AREA FORECAST

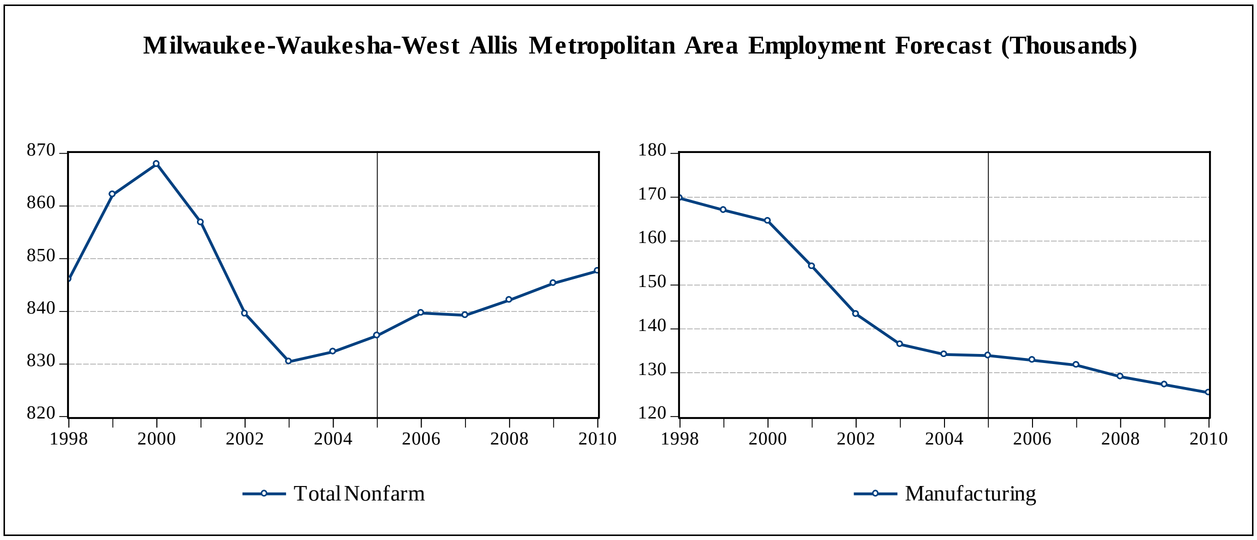
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	335.7	342.9	348.2	351.3	353.4	359.1	370.4
(% change)	2.2	2.1	1.6	1.5	1.6	1.6	1.5
Total Personal Income ($ billions)	19.9	20.9	22.1	23.4	24.8	26.3	27.9
(% change)	6.6	5.2	5.6	5.9	6.1	6.1	6.0

Milwaukee-Waukesha

Milwaukee-Waukesha area employment is forecast to increase 0.5% this year, in spite of a 0.8% decline in manufacturing employment. Sectors that saw declines in 2005 include the trade, transportation, and utility sector (-1.0%), information services (-2.9%), and professional and business services (-0.2%) . These were offset by increases in natural resources, mining, and construction (3.5%), educational and health services (1.3%) and leisure and hospitality (4.7%).

Total personal income is expected to increase 4.0% in 2005. In 2006, total personal income growth is expected to increase 4.5% followed by a 4.8% growth in 2007. In the 2008 to 2010 period, income growth is expected to average about 5.0%.

Chart I.27



MILWAUKEE-WAUKESHA METROPOLITAN AREA FORECAST

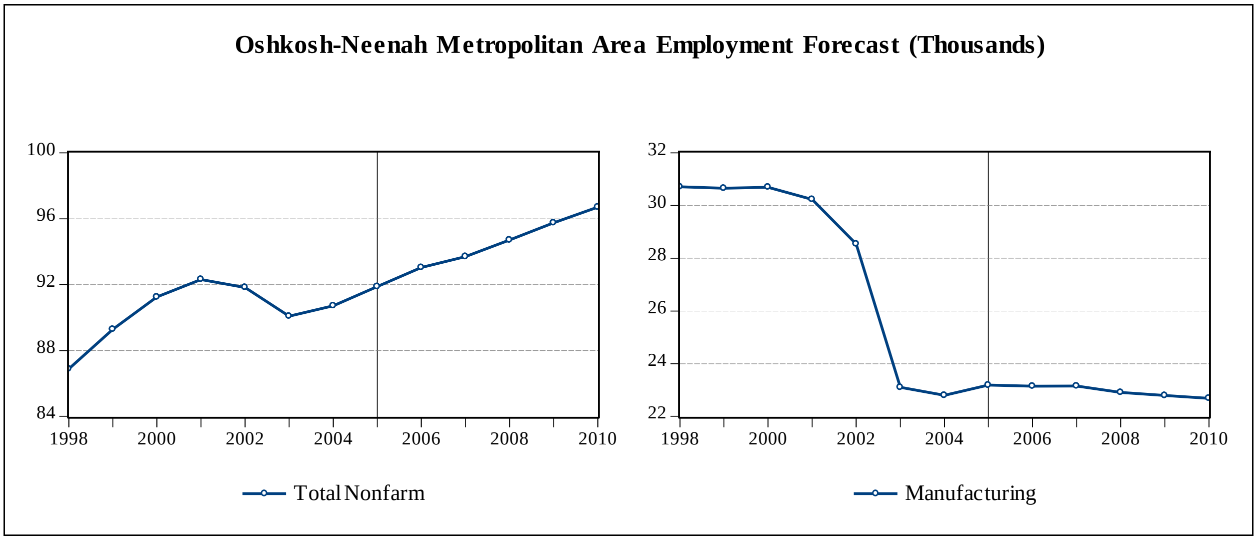
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	832.3	835.4	839.7	839.3	842.1	845.3	847.6
(% change)	0.2	0.4	0.5	0.0	0.3	0.4	0.3
Total Personal Income ($ billions)	55.2	57.4	60.0	62.9	66.0	69.3	72.7
(% change)	4.4	4.0	4.5	4.8	5.0	5.0	4.9

Oshkosh-Neenah

Employment grew 1.3% in 2005, due to strong growth in manufacturing (1.7%), trade, transportation, and utilities (3.7%) and governmental services (1.2%). Employment is forecast to grow 1.3% in 2006 despite slightly negative growth in manufacturing (-0.2%). Manufacturing employment is forecast to slightly increase in 2007 (0.1%), followed by declines for the remainder of the period (ranging from -1.1% to -.0.5%).

Total personal income is forecast to increase 4.4% in 2005. Personal income is forecast to increase 4.7 % in 2006, followed by a 5.0% growth in 2007. Personal income is expected to grow an annual average of 5.2% in the 2008-2010 periods.

Chart I.28



OSHKOSH – NEENAH METROPOLITAN AREA FORECAST

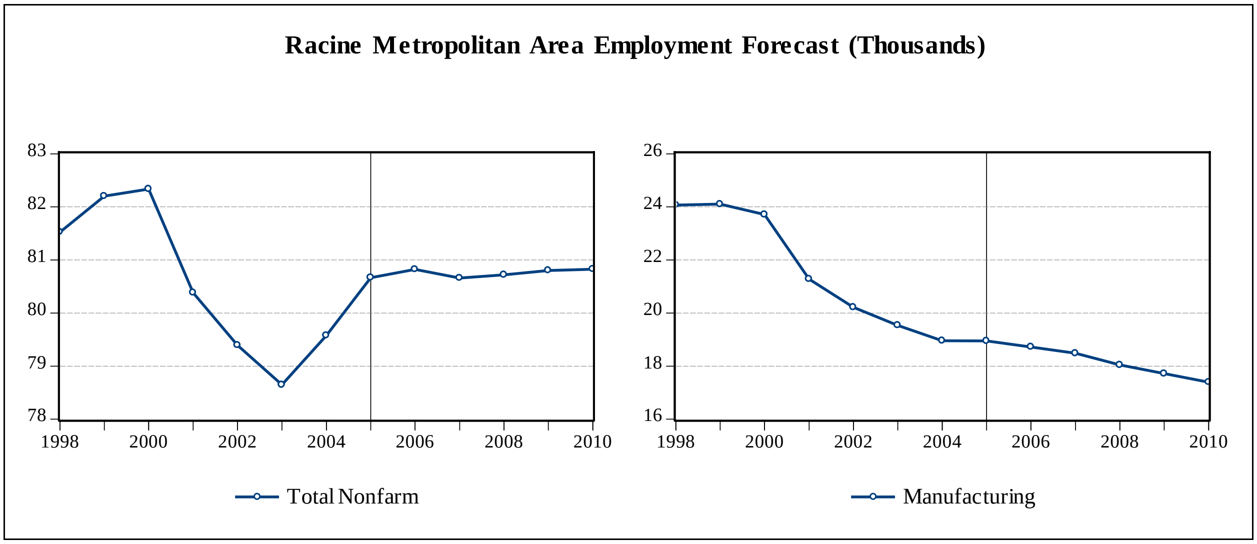
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	90.7	91.9	93.0	93.8	94.7	95.7	96.7
(% change)	0.7	1.3	1.3	0.7	1.1	1.1	1.0
Total Personal Income ($ billions)	5.1	5.3	5.6	5.9	6.2	6.5	6.8
(% change)	4.9	4.4	4.7	5.0	5.2	5.3	5.1

Racine

Total employment grew 1.4% in 2005 but is expected to stay flat over the forecast period. Manufacturing jobs are expected to fall throughout the forecast period with -1.2% growth in 2006 and 2007, -2.4% growth in 2008 and -1.8% growth in 2009 and 2010. The 2005 growth is largely attributable to growth in trade, transportation and utilities (2.2%), professional and business services (5.6%), education and health services (1.6%) and leisure and hospitality (6.5%).

Total personal income is forecast to increase 3.9% in 2005 followed by a 4.2% increase in 2006. Over the remainder of the forecast period personal income is forecast to increase at an annual average rate of 4.7%.

Chart I.29



RACINE METROPOLITAN AREA FORECAST

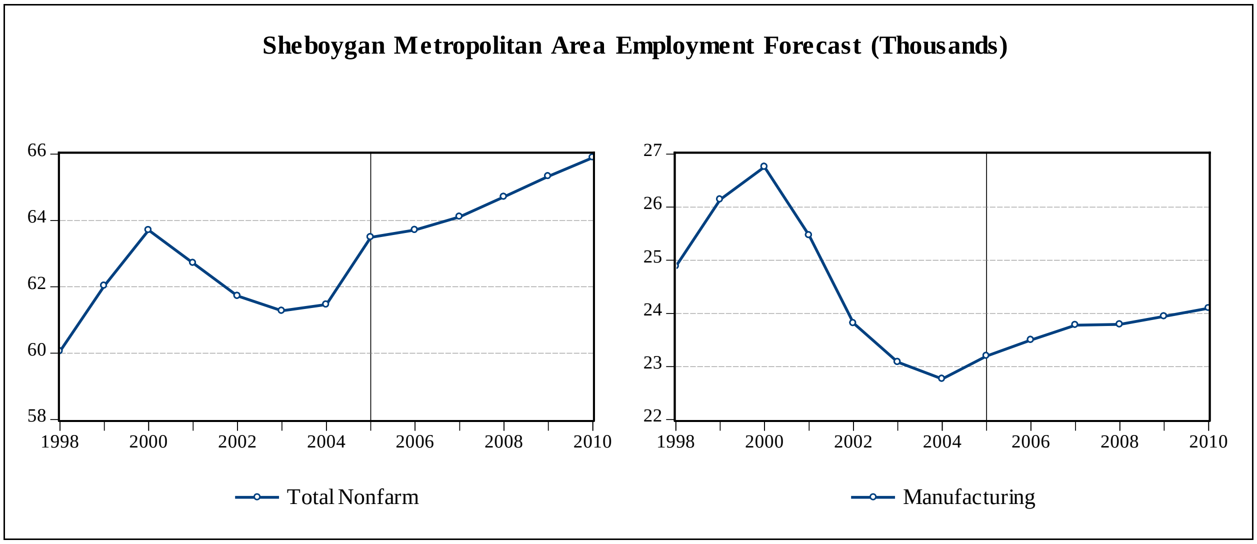
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	79.6	80.7	80.8	80.7	80.7	80.8	80.8
(% change)	1.2	1.4	0.2	-0.2	0.1	0.1	0.0
Total Personal Income ($ billions)	6.3	6.6	6.9	7.2	7.5	7.9	8.3
(% change)	5.1	3.9	4.2	4.5	4.7	4.8	4.7

Sheboygan

After four consecutive years of decline, manufacturing employment appears to be rebounding. Manufacturing employment grew 1.9% in 2005. Total employment grew 3.3% with solid contributions from smaller sectors such as financial activities (3.2%), professional and business services (24.6%), and educational and health services (8.3%). Employment for 2006 and 2007 is expected to grow between 0.4% and 0.6%, followed by growth around 0.9% for the remainder of the period.

Total personal income is expected to grow 4.3% in 2005 followed by 4.6% growth in 2006. Personal income is forecast to increase an average of 5.1% in 2007-2010 period.

Chart I.30



SHEBOYGAN METROPOLITAN AREA FORECAST

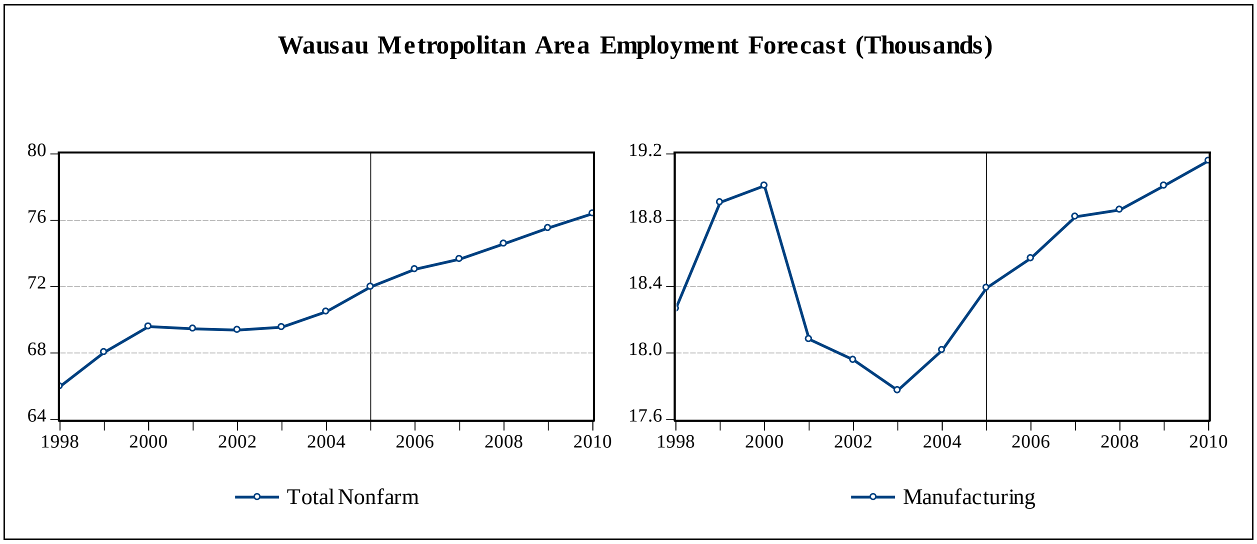
	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	61.5	63.5	63.7	64.1	64.7	65.3	65.9
(% change)	0.3	3.3	0.4	0.6	0.9	1.0	0.9
Total Personal Income ($ billions)	3.8	4.0	4.1	4.3	4.6	4.8	5.1
(% change)	6.8	4.3	4.6	5.0	5.2	5.2	5.1

Wausau

Total employment grew 2.1% in 2005 reflecting similar growth in the manufacturing sector (2.1%) and strong growth in smaller sectors. Financial activities grew 4.5%, while professional and business services grew 5.9% and leisure and hospitality grew 4.5%. Employment is forecast to grow 1.5% in 2006 and 0.8% in 2007, followed by an average growth of 1.2% for the remainder of the forecast period. Manufacturing will continue to contribute to future growth, growing 1.0% in 2006, 1.3% in 2007, 0.2% in 2008, and 0.8% in 2009 and 2010.

Total personal income is forecast to increase 4.8% in 2005 and 5.2% in 2006. Thereafter, it is expected to grow between 5.5% and 5.8%.

Chart I.31



WAUSAU METROPOLITAN AREA FORECAST

	2004	2005	2006	2007	2008	2009	2010
Nonfarm Employment							
(thousands)	70.5	72.0	73.0	73.7	74.6	75.5	76.4
(% change)	1.4	2.1	1.5	0.8	1.3	1.3	1.2
Total Personal Income ($ billions)	4.0	4.2	4.4	4.6	4.9	5.2	5.5
(% change)	5.5	4.8	5.2	5.5	5.7	5.8	5.6

TABLE I.1
TOTAL NONFARM EMPLOYMENT
(Thousands of Workers)

	2004	2005	2006	2007	2008	2009	2010
Appleton	115.8	116.8	117.8	118.7	120.0	121.4	122.6
(Percent Change)	*1.0*	*0.9*	*0.9*	*0.8*	*1.1*	*1.2*	*1.0*
Eau Claire	77.7	79.4	80.6	81.3	82.3	83.4	84.4
(Percent Change)	*0.8*	*2.1*	*1.5*	*0.9*	*1.3*	*1.3*	*1.2*
Fond du Lac	48.2	48.4	48.8	49.1	49.5	49.9	50.2
(Percent Change)	*1.8*	*0.2*	*1.0*	*0.5*	*0.8*	*0.8*	*0.7*
Green Bay	167.9	168.7	171.8	174.0	176.8	179.7	182.4
(Percent Change)	*2.9*	*0.5*	*1.8*	*1.3*	*1.6*	*1.6*	*1.5*
Janesville - Beloit	68.1	69.1	69.6	69.6	69.8	70.1	70.3
(Percent Change)	*1.3*	*1.4*	*0.8*	*-0.1*	*0.4*	*0.4*	*0.3*
La Crosse	72.4	73.0	74.0	74.5	75.2	76.0	76.6
(Percent Change)	*1.3*	*0.8*	*1.4*	*0.6*	*1.0*	*1.0*	*0.9*
Madison	335.7	342.9	348.2	353.4	359.1	364.8	370.4
(Percent Change)	*2.2*	*2.1*	*1.6*	*1.5*	*1.6*	*1.6*	*1.5*
Milwaukee - Waukesha	832.3	835.4	839.7	839.3	842.1	845.3	847.6
(Percent Change)	*0.2*	*0.4*	*0.5*	*0.0*	*0.3*	*0.4*	*0.3*
Oshkosh - Neenah	90.7	91.9	93.0	93.7	94.7	95.7	96.7
(Percent Change)	*0.7*	*1.3*	*1.3*	*0.7*	*1.1*	*1.1*	*1.0*
Racine	79.6	80.7	80.8	80.7	80.7	80.8	80.8
(Percent Change)	*1.2*	*1.4*	*0.2*	*-0.2*	*0.1*	*0.1*	*0.0*
Sheboygan	61.5	63.5	63.7	64.1	64.7	65.3	65.9
(Percent Change)	*0.3*	*3.3*	*0.4*	*0.6*	*0.9*	*1.0*	*0.9*
Wausau	70.5	72.0	73.0	73.7	74.6	75.5	76.4
(Percent Change)	*1.4*	*2.1*	*1.5*	*0.8*	*1.3*	*1.3*	*1.2*
Non-Metro State	786.6	799.1	812.2	819.9	830.8	841.6	852.0
(Percent Change)	*1.4*	*1.6*	*1.6*	*0.9*	*1.3*	*1.3*	*1.2*
Wisconsin	2,807.0	2,840.9	2,873.2	2,892.0	2,920.3	2,949.5	2,976.3
(Percent Change)	*1.1*	*1.2*	*1.1*	*0.7*	*1.0*	*1.0*	*0.9*

TABLE I.2
TOTAL PERSONAL INCOME
($ Billions)

	2004	2005	2006	2007	2008	2009	2010
Appleton	7.0	7.3	7.7	8.1	8.6	9.1	9.7
(Percent Change)	*7.2*	*4.8*	*5.3*	*5.7*	*5.9*	*5.9*	*5.7*
Eau Claire	4.3	4.4	4.6	4.8	5.1	5.3	5.6
(Percent Change)	*5.2*	*3.8*	*4.2*	*4.5*	*4.7*	*4.8*	*4.7*
Fond du Lac	3.1	3.2	3.4	3.5	3.7	3.9	4.1
(Percent Change)	*4.7*	*3.9*	*4.5*	*4.8*	*5.0*	*5.0*	*4.9*
Green Bay	9.4	9.9	10.4	11.0	11.6	12.3	13.0
(Percent Change)	*6.0*	*5.0*	*5.3*	*5.6*	*5.8*	*5.9*	*5.7*
Janesville - Beloit	4.4	4.6	4.8	5.0	5.2	5.4	5.7
(Percent Change)	*0.7*	*3.7*	*4.0*	*4.3*	*4.5*	*4.5*	*4.4*
La Crosse	3.8	4.0	4.2	4.4	4.6	4.9	5.1
(Percent Change)	*4.9*	*4.4*	*4.7*	*5.0*	*5.2*	*5.3*	*5.2*
Madison	19.9	20.9	22.1	23.4	24.8	26.3	27.9
(Percent Change)	*6.6*	*5.2*	*5.6*	*5.9*	*6.1*	*6.1*	*6.0*
Milwaukee - Waukesha	55.2	57.4	60.0	62.9	66.0	69.3	72.7
(Percent Change)	*4.4*	*4.0*	*4.5*	*4.8*	*5.0*	*5.0*	*4.9*
Oshkosh - Neenah	5.1	5.3	5.6	5.9	6.2	6.5	6.8
(Percent Change)	*4.9*	*4.4*	*4.7*	*5.0*	*5.2*	*5.3*	*5.1*
Racine	6.3	6.6	6.9	7.2	7.5	7.9	8.3
(Percent Change)	*5.1*	*3.9*	*4.2*	*4.5*	*4.7*	*4.8*	*4.7*
Sheboygan	3.8	4.0	4.1	4.3	4.6	4.8	5.1
(Percent Change)	*6.8*	*4.3*	*4.6*	*5.0*	*5.2*	*5.2*	*5.1*
Wausau	4.0	4.2	4.4	4.6	4.9	5.2	5.5
(Percent Change)	*5.5*	*4.8*	*5.2*	*5.5*	*5.7*	*5.8*	*5.6*
Non-Metro State	50.7	53.2	55.7	58.9	62.1	65.6	69.0
(Percent Change)	*6.6*	*4.9*	*4.7*	*5.7*	*5.4*	*5.6*	*5.2*
Wisconsin	177.0	185.0	193.9	204.0	214.9	226.5	238.5
(Percent Change)	*5.5*	*4.5*	*4.8*	*5.2*	*5.4*	*5.4*	*5.3*

APPENDICES

APPENDIX 1
U.S. ECONOMIC FORECAST
GLOBAL INSIGHT

	2004	2005	2006	2007	2008	2009	2010
Real GDP and its Components (Billions of Chain Weighted 2000 Dollars)							
Gross Domestic Product	10,704.0	11,049.0	11,417.0	11,693.0	12,058.0	12,434.0	12,822.0
% Change	3.9	3.2	3.3	2.4	3.1	3.1	3.1
Consumption	7,577.1	7,841.2	8,082.8	8,285.9	8,547.8	8,826.4	9,132.7
% Change	3.9	3.5	3.1	2.5	3.2	3.3	3.5
Investment (Incl. Inventory)	1,770.6	1,866.3	1,968.5	1,977.5	2,025.2	2,093.5	2,164.0
% Change	9.8	5.4	5.5	0.5	2.4	3.4	3.4
Nonresidential Structures	248.7	251.5	272.4	296.4	303.5	307.1	311.8
% Change	2.2	1.1	8.3	8.8	2.4	1.2	1.5
Business Equipment	904.2	984.9	1,063.7	1,125.9	1,184.1	1,254.2	1,308.4
% Change	7.3	8.9	8.0	5.8	5.2	5.9	4.3
Residential Fixed	559.9	608.0	594.6	548.1	534.1	531.9	544.3
% Change	9.9	8.6	(2.2)	(7.8)	(2.6)	(0.4)	2.3
Inventory Change	53.4	19.6	41.6	22.7	30.0	39.2	45.1
Exports	1,120.4	1,196.1	1,299.2	1,409.1	1,528.0	1,658.3	1,782.5
% Change	9.2	6.8	8.6	8.5	8.4	8.5	7.5
Imports	1,711.3	1,815.3	1,928.4	2,006.1	2,096.9	2,222.0	2,351.6
% Change	10.8	6.1	6.2	4.0	4.5	6.0	5.8
Federal Government	716.6	727.5	742.2	748.0	753.0	755.7	759.2
% Change	4.3	1.5	2.0	0.8	0.7	0.4	0.5
State and Local Government	1,223.9	1,230.4	1,255.1	1,283.4	1,310.9	1,338.7	1,358.8
% Change	0.5	0.5	2.0	2.3	2.2	2.1	1.5
GDP (Current Dollars)	11,712.0	12,456.0	13,267.0	13,891.0	14,605.0	15,365.0	16,148.0
% Change	6.9	6.4	6.5	4.7	5.1	5.2	5.1
Employment, Unemployment, Wages and Prices							
Nonfarm Employment (Millions)	131.4	133.5	135.3	136.8	138.7	140.6	142.2
% Change	1.1	1.5	1.4	1.1	1.4	1.4	1.2
Unemployment Rate (%)	5.5	5.1	4.7	4.9	4.9	4.8	4.7
Compensation per Hour (% Change)	4.5	5.1	3.7	3.9	3.8	4.0	4.1
Consumer Price Index (% Change)	2.7	3.4	3.6	2.5	1.8	1.7	1.6
Producer Price Index (% Change)	6.2	7.3	5.9	4.8	0.5	-0.2	-0.7
GDP Price Deflator (% Change)	2.8	3.0	3.1	2.2	2.0	2.0	1.9
Industrial Production (% Change)	4.1	3.2	4.4	2.3	2.0	2.0	2.6
Price of WTI Crude Oil ($ Per Barrel)	41.5	56.6	71.7	76.3	73.4	68.8	64.4
Financial Markets							
Money Supply (M2) ($ Billions)	6,388.6	6,646.7	6,921.2	7,170.3	7,483.6	7,807.2	8,167.1
% Change	5.3	4.0	4.1	3.6	4.4	4.3	4.6
Prime Commercial Rate (%)	4.3	6.2	8.0	8.2	7.8	7.9	8.0
Three Month Treasury Bills (%)	1.4	3.1	4.9	5.0	4.7	4.8	4.8
Ten-Year Treasury Note Yield (%)	4.3	4.3	5.0	5.2	5.4	5.6	5.7
General Obligation AAA Municipals (%)	4.5	4.3	4.5	4.9	5.3	5.6	5.7
Thirty-Year Mortgage Rate (%)	5.8	5.9	6.6	6.8	7.0	7.3	7.3
S&P 500 Stock Index	1,130.6	1,207.1	1,281.6	1,294.1	1,374.5	1,457.6	1,555.4
Income, Profits and Savings							
Personal Income ($ Billions)	9,731.4	10,239.2	10,883.0	11,480.9	12,138.8	12,853.2	13,586.7
% Change	6.2	5.2	6.3	5.5	5.7	5.9	5.7
Personal Income ($ 2000) ($ Billions)	8,978.7	9,183.2	9,474.8	9,776.2	10,146.1	10,558.0	10,973.9
% Change	3.5	2.3	3.2	3.2	3.8	4.1	3.9
Personal Tax & Nontax Payments	1,049.8	1,203.1	1,376.7	1,434.9	1,486.4	1,607.9	1,734.9
% Change	4.9	14.6	14.4	4.2	3.6	8.2	7.9
Disposable Personal Income	8,681.5	9,036.1	9,506.3	10,046.0	10,652.4	11,245.4	11,851.8
% Change	6.4	4.1	5.2	5.7	6.0	5.6	5.4
Savings Rate (%)	2.0	(0.4)	(1.4)	(0.7)	0.2	0.5	0.6
Corporate Profits Before Tax ($ Billions)	1,182.6	1,330.7	1,593.0	1,628.0	1,684.2	1,717.6	1,760.4
% Change	19.1	12.5	19.7	2.2	3.5	2.0	2.5

APPENDIX 2

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

	History			Forecast				
	2003	2004	2005	2006	2007	2008	2009	2010
Total Nonfarm	2,775.3	2,807.0	2,840.9	2,873.2	2,892.0	2,920.3	2,949.5	2,976.3
% Change	-0.3	1.1	1.2	1.1	0.7	1.0	1.0	0.9
Private Nonfarm	2,362.5	2,394.8	2,428.4	2,461.0	2,480.8	2,509.3	2,537.8	2,562.5
% Change	-0.2	1.4	1.4	1.3	0.8	1.2	1.1	1.0
Natural Resources & Mining	3.8	3.8	3.9	4.1	4.0	3.9	3.9	3.9
% Change	-1.5	2.0	2.0	5.1	-2.8	-1.6	-0.5	-0.3
Construction	124.1	126.8	129.7	134.4	130.9	129.6	128.5	127.3
% Change	0.0	2.2	2.3	3.7	-2.6	-1.0	-0.8	-0.9
Manufacturing	504.1	502.7	506.8	507.9	508.6	503.7	501.6	499.7
% Change	-4.6	-0.3	0.8	0.2	0.1	-1.0	-0.4	-0.4
Trade, Transportation & Utilities	536.4	538.9	540.2	540.1	541.6	550.2	556.4	561.9
% Change	-0.1	0.5	0.2	0.0	0.3	1.6	1.1	1.0
Information	50.3	49.9	49.6	48.8	48.9	49.6	50.5	51.3
% Change	-1.6	-0.9	-0.5	-1.6	0.2	1.4	1.9	1.6
Financial Activities	156.9	158.8	158.7	159.6	162.7	165.7	168.1	170.5
% Change	2.0	1.2	0.0	0.6	1.9	1.8	1.5	1.4
Professional & Business Services	244.3	253.0	260.5	266.8	271.6	278.5	285.5	291.9
% Change	1.9	3.5	3.0	2.4	1.8	2.5	2.5	2.2
Education & Health Services	364.6	374.9	385.7	398.2	408.4	418.4	428.5	436.4
% Change	2.1	2.8	2.9	3.2	2.6	2.5	2.4	1.8
Leisure & Hospitality	245.4	250.8	258.1	265.1	267.8	272.1	276.3	280.6
% Change	2.1	2.2	2.9	2.7	1.0	1.6	1.6	1.5
Other Services	132.7	135.3	135.4	135.9	136.2	137.6	138.4	139.1
% Change	0.3	2.0	0.1	0.4	0.2	1.1	0.5	0.5
Government	412.8	412.2	412.5	412.3	411.2	411.0	411.7	413.8
% Change	-0.4	-0.2	0.1	0.0	-0.3	-0.1	0.2	0.5
Federal Government	29.8	29.6	29.2	29.3	29.3	29.3	29.5	30.5
% Change	-0.3	-0.8	-1.3	0.3	0.2	-0.1	0.5	3.6
State & Local Government	383.0	382.6	383.3	383.0	381.9	381.6	382.2	383.2
% Change	-0.5	-0.1	0.2	-0.1	-0.3	-0.1	0.2	0.3

Household Survey Employment Measures

Labor Force	3,055.7	3,040.9	3,041.5	3,087.1	3,117.3	3,144.5	3,171.2	3,199.0
% Change	0.6	-0.5	0.0	1.5	1.0	0.9	0.8	0.9
Employment	2,884.0	2,888.2	2,897.5	2,938.4	2,956.5	2,980.6	3,009.1	3,036.8
% Change	0.3	0.1	0.3	1.4	0.6	0.8	1.0	0.9
Unemployment Rate (%)	5.6	5.0	4.7	4.8	5.2	5.2	5.1	5.1

APPENDIX 3

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)
Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2005:3	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2
Total Nonfarm	2,841.7	2,854.5	2,861.6	2,869.9	2,878.8	2,882.7	2,884.8	2,887.5
% Change	0.5	1.8	1.0	1.2	1.2	0.5	0.3	0.4
Private Nonfarm	2,431.8	2,440.2	2,448.2	2,457.9	2,466.7	2,471.0	2,473.3	2,476.3
% Change	0.9	1.4	1.3	1.6	1.4	0.7	0.4	0.5
Natural Resources & Mining	3.9	3.8	4.0	4.2	4.1	4.1	4.0	4.0
% Change	-9.7	-3.4	18.6	21.6	-5.7	-4.4	-5.2	-3.3
Construction	129.3	131.9	136.4	135.0	133.6	132.6	131.8	131.1
% Change	-0.8	8.3	14.2	-3.9	-4.2	-2.8	-2.5	-2.0
Manufacturing	508.0	508.3	507.6	507.5	508.0	508.4	510.2	508.7
% Change	1.6	0.2	-0.5	-0.1	0.4	0.4	1.4	-1.2
Trade, Transportation & Utilities	540.6	537.3	539.5	539.9	540.8	540.3	539.3	540.4
% Change	-1.1	-2.4	1.6	0.3	0.7	-0.4	-0.7	0.8
Information	49.5	49.2	48.9	48.9	48.8	48.8	48.9	49.0
% Change	-4.7	-2.1	-2.7	-0.3	-0.9	0.3	0.5	1.2
Financial Activities	158.9	157.2	157.8	159.4	160.4	161.1	161.6	162.4
% Change	-1.1	-4.2	1.4	4.1	2.5	1.8	1.4	1.9
Professional & Business Services	259.4	262.0	261.7	267.0	268.7	269.8	269.6	270.6
% Change	-2.9	4.1	-0.5	8.4	2.6	1.7	-0.3	1.4
Education & Health Services	387.8	392.0	390.4	397.1	401.4	404.0	405.8	406.9
% Change	5.4	4.4	-1.6	7.0	4.4	2.6	1.8	1.1
Leisure & Hospitality	259.1	264.1	266.2	263.0	265.1	266.1	266.4	267.3
% Change	6.1	7.9	3.2	-4.7	3.2	1.5	0.5	1.3
Other Services	135.3	134.4	135.8	136.0	136.0	135.8	135.6	135.9
% Change	-2.8	-2.7	4.3	0.5	-0.1	-0.6	-0.4	0.9
Government	410.0	414.3	413.4	412.0	412.0	411.7	411.5	411.2
% Change	-1.9	4.3	-0.9	-1.3	0.1	-0.3	-0.2	-0.3
Federal Government	29.0	29.0	29.1	29.2	29.5	29.4	29.4	29.3
% Change	-3.2	0.0	0.9	1.4	3.8	-0.9	-0.5	-0.5
State & Local Government	380.9	385.2	384.3	382.8	382.6	382.3	382.1	381.9
% Change	-1.8	4.6	-1.0	-1.6	-0.2	-0.3	-0.2	-0.3

Household Survey Employment Measures

Labor Force	3,042.3	3,042.0	3,067.4	3,080.7	3,097.5	3,102.7	3,108.0	3,113.1
% Change	0.4	0.0	3.4	1.7	2.2	0.7	0.7	0.7
Employment	2,898.7	2,899.6	2,924.7	2,935.1	2,945.5	2,948.4	2,950.5	2,952.8
% Change	0.2	0.1	3.5	1.4	1.4	0.4	0.3	0.3
Unemployment Rate (%)	4.7	4.7	4.7	4.7	4.9	5.0	5.1	5.2

APPENDIX 4

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE
($ Billions)

	History			Forecast				
	2003	2004	2005	2006	2007	2008	2009	2010
Total Personal Income	167.786	177.026	184.974	193.923	203.966	214.904	226.546	238.465
% Change	2.7	5.5	4.5	4.8	5.2	5.4	5.4	5.3
Wages and Salaries	94.362	99.135	103.205	107.717	112.533	117.93	123.678	129.529
% Change	3.0	5.1	4.1	4.4	4.5	4.8	4.9	4.7
Supplements to Wages and Salaries	23.147	24.988	26.561	27.852	29.181	30.303	31.498	32.966
% Change	9.0	8.0	6.3	4.9	4.8	3.8	3.9	4.7
Proprietor's Income	10.457	11.480	12.114	12.447	13.626	15.019	16.504	18.107
% Change	4.3	9.8	5.5	2.8	9.5	10.2	9.9	9.7
Rental Income	2.391	2.456	2.064	1.815	1.472	1.254	1.139	1.160
% Change	-15.0	2.7	-16	-12.1	-18.9	-14.8	-9.1	1.8
Personal Dividend Income	8.237	9.754	10.237	11.259	12.467	13.628	14.658	15.562
% Change	3.0	18.4	5.0	10.0	10.7	9.3	7.6	6.2
Personal Interest Income	16.996	16.776	17.358	18.467	19.738	21.139	22.972	24.622
% Change	-3.0	-1.3	3.5	6.4	6.9	7.1	8.7	7.2
Current Transfer Receipts	23.544	24.319	25.744	27.085	28.187	29.37	30.367	31.424
% Change	2.2	3.3	5.9	5.2	4.1	4.2	3.4	3.5
Residence Adjustment	3.048	3.301	3.461	3.650	3.886	4.152	4.439	4.740
% Change	3.3	8.3	4.8	5.5	6.5	6.8	6.9	6.8
Contributions to Government Social Ins.	14.397	15.182	15.772	16.368	17.125	17.893	18.709	19.646
% Change	3.4	5.5	3.9	3.8	4.6	4.5	4.6	5.0
Personal Tax & Nontax Payments	18.817	19.642	21.614	23.982	25.078	25.517	27.496	29.5
% Change	-3.7	4.4	10.0	11.0	4.6	1.8	7.8	7.3
Disposable Personal Income	148.969	157.384	163.36	169.941	178.888	189.387	199.05	208.965
% Change	3.6	5.6	3.8	4.0	5.3	5.9	5.1	5.0

Related Income Measures

	2003	2004	2005	2006	2007	2008	2009	2010
Personal Income (2000 $) ($ Billions)	158.888	163.334	165.908	168.832	173.681	179.625	186.091	192.609
% Change	0.7	2.8	1.6	1.8	2.9	3.4	3.6	3.5
Per Capita Income (2000 $)	29,315	29,978	30,300	30,692	31,440	32,387	33,431	34,473
% Change	0.2	2.3	1.1	1.3	2.4	3.0	3.2	3.1
Per Capita Income ($)	30,957	32,491	33,782	35,254	36,922	38,748	40,698	42,680
% Change	2.2	5.0	4.0	4.4	4.7	4.9	5.0	4.9
Per Capita Income as a Percent of U.S.	98.5	98.2	98.0	97.1	97.2	97.3	97.4	97.5

APPENDIX 5

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE ($ Billions)
Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2005:2	2005:3	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1
Total Personal Income	184.265	186.117	186.877	189.928	192.651	195.361	197.753	200.217
% Change	3.6	4.1	1.6	6.7	5.9	5.7	5.0	5.1
Wages and Salaries	102.965	104.063	103.313	105.404	107.084	108.625	109.753	110.791
% Change	1.9	4.3	-2.9	8.3	6.5	5.9	4.2	3.8
Supplements to Wages and Salaries	26.392	26.836	26.776	27.266	27.655	28.052	28.433	28.78
% Change	2.3	6.9	-0.9	7.5	5.8	5.9	5.5	5.0
Proprietor's Income	12.08	12.199	12.352	12.147	12.262	12.514	12.866	13.185
% Change	9.0	4.0	5.1	-6.5	3.9	8.5	11.7	10.3
Rental Income	1.977	1.946	2.094	2.013	1.867	1.738	1.643	1.562
% Change	-39.2	-6.2	34.1	-14.7	-26.0	-24.8	-20.1	-18.4
Personal Dividend Income	10.14	10.343	10.59	10.834	11.109	11.400	11.692	12.016
% Change	11.2	8.2	9.9	9.5	10.6	10.9	10.7	11.5
Personal Interest Income	17.297	17.413	17.825	17.87	18.401	18.686	18.911	19.26
% Change	9.8	2.7	9.8	1.0	12.4	6.4	4.9	7.6
Current Transfer Receipts	25.736	25.690	26.164	26.923	26.935	27.141	27.341	27.785
% Change	5.6	-0.7	7.6	12.1	0.2	3.1	3	6.7
Residence Adjustment	3.432	3.489	3.489	3.55	3.62	3.687	3.743	3.797
% Change	-0.1	6.8	0.0	7.2	8.1	7.6	6.3	5.9
Contributions to Government Social Ins.	15.757	15.863	15.726	16.079	16.281	16.482	16.631	16.959
% Change	0.4	2.7	-3.4	9.3	5.1	5.0	3.7	8.1

Personal Tax & Nontax Payments	21.342	22.001	22.134	23.135	23.818	24.297	24.678	24.814
% Change	7.2	12.9	2.4	19.4	12.3	8.3	6.4	2.2
Disposable Personal Income	162.923	164.116	164.743	166.793	168.833	171.064	173.074	175.404
% Change	3.2	3.0	1.5	5.1	5.0	5.4	4.8	5.5

Related Income Measures

Personal Income (2000 $) ($ Billions)	166.094	166.078	165.564	167.419	168.103	169.292	170.513	171.684
% Change	0.5	0.0	-1.2	4.6	1.6	2.9	2.9	2.8
Per Capita Income (2000 $)	30,353	30,312	30,185	30,490	30,575	30,758	30,946	31,125
% Change	0.0	-0.5	-1.7	4.1	1.1	2.4	2.5	2.3
Per Capita Income ($)	33,674	33,969	34,071	34,589	35,040	35,494	35,890	36,298
% Change	3.2	3.6	1.2	6.2	5.3	5.3	4.5	4.6
Per Capita Income as Percent of U.S. (%)	98.3	98.4	96.8	97.0	97.0	97.1	97.2	97.1

II. REVENUE COLLECTIONS REPORT

PRELIMINARY GENERAL PURPOSE REVENUE COLLECTIONS FOR THE 2005-06 FISCAL YEAR

Introduction

General purpose revenue (GPR) taxes for the fiscal year (FY) ending June 30, 2006, totaled $12,030.1 million, an increase of 5.6% from FY 2005 collections of $11,396.6 million. Total collections for the fiscal year were $80.5 million or 0.7% above the Legislative Fiscal Bureau's (LFB) January 2006 estimate of $11,949.6 million.

A complete accounting of the FY 2005-2006 revenues and expenditures will be included in the Department of Administration's *Annual Fiscal Report,* to be released on October 15.

Individual Income Tax

Individual income tax collections increased $494.2 million (8.7%) from $5,650.1 million in FY 2005 to $6,144.3 million in FY 2006. This was $119.3 million (2.0%) above the $6,025.0 million estimate. The individual income tax share of total GPR taxes increased from 49.6% in FY 2005 to 51.1% in FY 2006.

The largest component of individual income tax collections is withholding from wages and salaries, which increased 7.0% from $5,545.3 million to $5,935.7 million. Estimated payments increased 11.1% from $921 million to $1,023.9 million, while refunds increased 4.7% from $1,432.9 million to $1,499.5 million.

General Sales and Use Tax

Collections from the 5% general sales and use tax increased 2.2 % from $4,038.7 million to $4,127.6 million. This was $54.0 million (1.3%) below the $4,181.6 million estimate. Sales tax collections as a percentage of total GPR taxes decreased from 35.4% to 34.3%.

Corporation Franchise and Income Tax

Corporate collections increased 2.1% from $764.1 million in FY 2005 to $780.3 million in FY 2006. Corporate collections as a percentage of total GPR taxes decreased from 6.7% to 6.5%. Corporate collections were $10.3 million (1.3%) above the estimate of $770.0 million.

The major source of corporate collections, estimated payments, increased by 0.7% from $713.5 million in FY 2005 to $718.8 million in FY 2006.

Excise Taxes

Cigarette tax collections increased 2.4% from $294.3 million in FY 2005 to $301.5 million in FY 2006. Collections in FY 2006 were $5 million (1.7%) above the estimate.

Tobacco products tax collections increased 3.7 % from $15.8 million to $16.4 million. Collections in FY 2006 were $321,000 (2.0%) above the estimate.

Liquor and wine tax collections increased 3.8% from $39.5 million in FY 2005 to $41.0 million in FY 2006. Collections fell short of the estimate of $42.4 million by $1.4 million (3.2%).

Beer tax collections decreased 0.1% from $9.77 million to $9.76 million and were $141,000 below estimates.

Other Taxes

Public utility tax collections increased $20.7 million (8.1%) from $254.4 million to $275.1 million. Collections were $17.2 million more than forecast. Telephone taxes decreased from $72.6 million to $63.0 million. Public utility taxes on private light heat and power companies increased from $159.6 million to $189.1 million.

The estate tax decreased 3.4% from $112.3 million in FY 2005 to $108.6 million in FY 2006. Collections were $15.4 million (12.4 %) lower than estimated.

Insurance company taxes (generally based on premiums) increased 3.7% from $129.8 million to $134.6 million. This is $379,000 lower than the $135 million estimate.

Miscellaneous taxes increased 3.6% from $87.7 million to $90.9 million. The major tax in this group is the real estate transfer fee, which increased 4.8% from $77.2 million to $80.4 million.

Tables

Table II.1 compares actual FY 2006 collections with the LFB January 2006 estimates. Table II.2 compares FY 2006 collections with those for FY 2005.

TABLE II.1
COMPARISON OF 2005-2006 GENERAL PURPOSE REVENUE (GPR) TAX COLLECTIONS
TO BUDGET ESTIMATES
($ Thousands)

Tax Source	January 2006 Estimates *	Preliminary Actual 2005-06	Difference	Percent Difference
Individual Income	$6,025,000	$6,144,299	$119,299	2.0%
General Sales & Use	4,181,600	4,127,585	-54,015	-1.3%
Corporation Franchise & Income	770,000	780,320	10,320	1.3%
Public Utility	257,900	275,147	17,247	6.7%
Excise				
Cigarette	296,500	301,490	4,990	1.7%
Tobacco Products	16,100	16,421	321	2.0%
Liquor	42,400	41,023	-1,377	-3.2%
Beer	9,900	9,759	-141	-1.4%
Estate	124,000	108,571	15,429	-12.4%
Insurance Companies	135,000	134,621	-379	-0.3%
Miscellaneous	91,200	90,859	-341	-0.4%
TOTAL **	$11,949,600	$12,030,095	$80,495	0.7%

* Prepared by Legislative Fiscal Bureau.
* * Detail may not add to totals because of rounding, and percent changes were calculated before rounding.

TABLE II.2
COMPARISON OF ACTUAL 2004-2005 AND 2005-06 GENERAL PURPOSE REVENUE (GPR)
TAX COLLECTIONS
($ Thousands)

Tax Source	Actual 2004-05 ($)	Preliminary Actual 2005-06 ($)	Difference ($)	Percent Difference	Percent of Total 2004-05	Percent of Total 2005-06
Individual Income	$5,650,110	$6,144,299	$494,189	8.7%	49.6%	51.1%
General Sales & Use	4,038,715	4,127,585	88,870	2.2%	35.4%	34.3%
Corporation Franchise & Income	764,053	780,320	16,267	2.1%	6.7%	6.5%
Public Utility	254,443	275,147	20,704	8.1%	2.2%	2.3%
Excise						
Cigarette	294,301	301,490	7,189	2.4%	2.6%	2.5%
Liquor	39,532	41,023	1,491	3.8%	0.3%	0.3%
Beer	9,770	9,759	-11	-0.1%	0.1%	0.1%
Tobacco Products	15,841	16,421	580	3.7%	0.1%	0.1%
Estate	112,346	108,571	-3,775	-3.4%	1.0%	0.9%
Insurance Companies	129,839	134,621	4,782	3.7%	1.1%	1.1%
Miscellaneous	87,688	90,859	3,171	3.6%	0.8%	0.8%
TOTAL *	$11,396,638	$12,030,095	$633,457	5.6%	100.0%	100.0%

* Detail may not add to totals because of rounding, and percent changes were calculated before rounding.